KEDRION
BIOPHARMA

KEDRION GROUP
CONSOLIDATED FINANCIAL STATEMENTS AS AT 31 DECEMBER 2017

KEDRION S.P.A.

Joint-stock company
Fully paid-up share capital Euro 55,186,279.00
Registered office: Località Ai Conti - 55051 BARGA (LU) – frazione Castelvecchio Pascoli
Production facility: 55027 GALLICANO (LU) – frazione Bolognana
80029 SANT'ANTIMO (NA)
Tax Code – VAT No. – Reg. Of Companies of Lucca No. 01779530466
Economic & Administrative Index No. 170535

These consolidated financial statements have been translated from the original Italian into the English language solely for the convenience of international readers.

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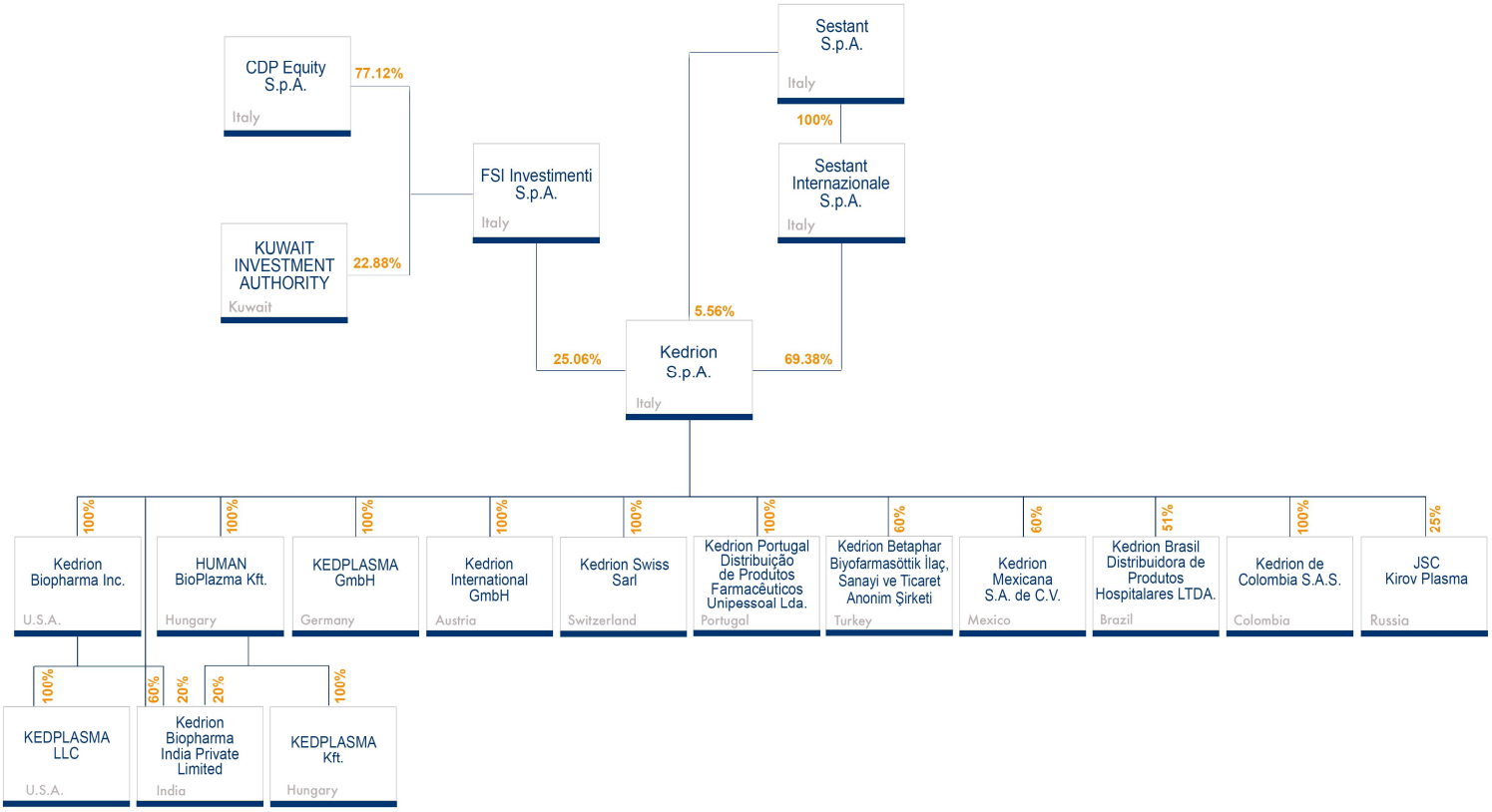
1. GROUP STRUCTURE



2. PARENT COMPANY ADMINISTRATIVE AND CONTROL BODIES

BOARD OF DIRECTORS In office until approval of the financial statements for the year ended 31 December 2017.	Paolo Marcucci	Chairman and Managing Director
	Rodolfo De Dominicis	Deputy Chairman
	Maria Lina Marcucci	Director
	Andrea Marcucci	Director
	Remo Grassi	Director
	Guido Rivolta	Director
	Umberto Della Sala	Director
	Massimo Perpoli	Secretary
REMUNERATION COMMITTEE	Guido Rivolta	Chairman
	Rodolfo De Dominicis	
	Remo Grassi	
BOARD OF STATUTORY AUDITORS In office until approval of the financial statements for the year ended 31 December 2017.	Fabrizio Redaelli	Chairman
	Francesco Cirillo	Standing Auditor
	Marco Miccinesi	Standing Auditor
	Alessandro Bicchi	Alternate Auditor
	Giuseppe Paternò	Alternate Auditor
INDEPENDENT AUDITORS The statutory audit assignment was awarded by the ordinary Shareholders' Meeting of 27 April 2015 and expires at the time of the Meeting called to approve the financial statements for the year ending 31 December 2022.	Ernst & Young S.p.A.	

THE COMPANY'S BOARD OF DIRECTORS

a) Role and functions

In compliance with Article 20.1 of the Statute, the Board of Directors is vested with full powers for the ordinary and extraordinary management of the Company, without any exceptions, and may perform all deeds, including provisions, that it deems necessary for achieving the corporate purpose, excluding only those that the law or the Statute specifically reserve to the Shareholders' Meeting or in any event which require a shareholder decision.

b) Composition

The Company is managed by a Board of Directors composed of 7 (seven) members.

c) Delegation and powers

The Board of Directors has delegated certain powers to individual directors. In particular:

- The Managing Director is invested with powers relating to ordinary administration for the purposes of achieving the corporate purpose and other specific powers.
- The Vice Chairman is invested with the following powers: 1) define the strategy and maintain relationships with public and private institutions, also for group companies; 2) act as the Ethics Officer, also to implement the SA8000 standards; 3) act as the Internal Auditing department, with the specific task of coordinating and drawing up the bi-monthly report to shareholders, and Enterprise Risk Manager duties.

ORGANISATIONAL MODEL PURSUANT THE LEGISLATIVE DECREE 231/2001

The Company has implemented the Organisational Model in compliance with the provisions of Legislative Decree No. 231/2001.

SECURITY PLANNING DOCUMENT

The Company set up the security-planning document, according to the timeframes and methods set out in regulations, and updates it periodically.

3. REPORT OF THE INDEPENDENT AUDITOR

3.1. REPORT ON CONSOLIDATED FINANCIAL STATEMENTS

Kedrion S.p.A.

Consolidated financial statements as at December 31st, 2017

Independent auditor's report pursuant to article 14 of Legislative Decree n. 39, dated 27 January 2010, and article 10 of EU Regulation n. 537/2014

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Independent auditor's report pursuant to article 14 of Legislative Decree n. 39, dated 27 January 2010 and article 10 of EU Regulation n. 537/2014
(Translation from the original Italian text)

To the Shareholders of
Kedrion S.p.A.

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Kedrion S.p.A. and its subsidiaries, ("Kedrion Group" or "Group), which comprise the consolidated statement of financial position as at December 31st, 2017, and the statement of profit or loss, the statement of profit or loss and other comprehensive income, the statement of changes in consolidated shareholders' equity,the statement of cash flows for the year then ended, and explanatory notes to the consolidated financial statements, including a summary of the significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the the Group as at December 31st, 2017, and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards as adopted by the European Union and with the regulations issued for implementing art. 9 of Legislative Decree n. 38/2005.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of Kedrion S.p.A in accordance with the regulations and standards on ethics and independence applicable to audits of financial statements under Italian Laws. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We identified the following key audit matter:

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Key Audit Matter	Audit Response
Impacts from the "refitting" process of the Melville plant The consolidated financial statements of the Group reflect the impacts from the "refitting" process of the Melville plant; the project, which required a total investment of over 100 million US dollars, involved the shutdown of the plant since April of 2016 and its operational restart is expected during 2018. The processes and methodologies for assessing and determining the direct and indirect accounting implications of the "refitting" process on the consolidated financial statements as at December 31st, 2017 required the Directors to use their own judgment, in particular with reference to: (i) the identification of the requirements for the capitalization of the activities related to the "refitting" process during the year, for Euro 54.1 million, (ii) the identification and write-down of the assets and stock of semi-finished products no longer economically usable as a consequence of such project, for Euro 2.1 million and Euro 11.9 million, respectively, and (iii) the identification of additional charges attributable to the "refitting" project which, together with the previous amortization, depreciation and write-down costs, are disclosed as non-recurring costs for a total of Euro 45.8 million. In consideration of the judgment involved and the magnitude of the accounting implications to the consolidated financial statements of the Group, we considered that this issue represents a key audit matter. Such circumstances are reported in the report on operations and in the explanatory notes, in particular with reference to notes 6.2 "Period's significant events", 6.3.7 "Discretionary assessments and significant accounting estimates", 6.4.1 "Property, plant and equipment ", 6.4.10" Inventories" and 6.5.11 "Significant non-recurring, unusual and atypical transactions".	Our audit procedures in response to the key audit matter included, among others: - the review of the documentation prepared by the Group for the analysis and monitoring of the "refitting" project, the minutes of the Board of Directors and relevant supporting documentation , and the correspondence with the Food & Drug Administration; - the execution of substantive testing, on a sample basis, of additions to the investments made in connection with the project; - the execution of substantive procedures on the recoverability of tangible assets recorded in the general ledger before the plant's shutdown; - the assessment of the key assumptions made by the Directors to estimate the write-down of semi-finished products' inventories, through the analysis of the information on the expected timing of the plant's operational restart, on which are based the expected utilization of the inventories, the assessment of the procedure for estimating the recoverable value of the inventories, and substantive testing of the documents supporting the usability attributes and expiration date for a sample of semi-finished products; - the analysis of the methodologies for identifying and presenting the non-recurring costs related to the project. Lastly, we reviewed the adequacy of the information provided in the notes in relation to the Melville plant's "refitting" process.

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Responsibilities of Directors and Those Charged with Governance for the Consolidated Financial Statements

The Directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and with the regulations issued for implementing art. 9 of Legislative Decree n. 38/2005, and, within the terms provided by the law, for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Directors are responsible for assessing the Group's ability to continue as a going concern and, when preparing the consolidated financial statements, for the appropriateness of the going concern assumption, and for appropriate disclosure thereof. The Directors prepare the consolidated financial statements on a going concern basis unless they either intend to liquidate the Parent Company Kedrion S.p.A. or to cease operations, or have no realistic alternative but to do so.

The statutory audit committee ("Collegio Sindacale") is responsible, within the terms provided by the law, for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (ISA Italia) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with International Standards on Auditing (ISA Italia), we have exercised professional judgment and maintained professional skepticism throughout the audit. In addition:

- we have identified and assessed the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, designed and performed audit procedures responsive to those risks, and obtained audit evidence that is sufficient and appropriate to provide a basis for our opinion; the risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- we have obtained an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control;
- we have evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors;
- we have concluded on the appropriateness of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern; if we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements

or, if such disclosures are inadequate, to consider this matter in forming our opinion; our conclusions are based on the audit evidence obtained up to the date of our auditor's report; however, future events or conditions may cause the Group to cease to continue as a going concern;

- we have evaluated the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation;
- we have obtained sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements; we are responsible for the direction, supervision and performance of the group audit; we remain solely responsible for our audit opinion.

We have communicated with those charged with governance, identified at an appropriate level as required by ISA Italia, regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We have provided those charged with governance with a statement that we have complied with the ethical and independence requirements applicable in Italy, and we have communicated with them all matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we have determined those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We have described these matters in our auditor's report.

Additional information pursuant to article 10 of EU Regulation n. 537/14

The shareholders of Kedrion S.p.A., in the general meeting held on April 27, 2015, engaged us to perform the audits of the consolidated financial statements for each of the years ending December 31st, 2014 to December 31st, 2022.

We declare that we have not provided prohibited non-audit services, referred to article 5, par. 1, of EU Regulation n. 537/2014, and that we have remained independent of the Group in conducting the audit.

We confirm that the opinion on the consolidated financial statements included in this report is consistent with the content of the additional report to the audit committee (Collegio Sindacale) in their capacity as audit committee, prepared pursuant to article 11 of the EU Regulation n. 537/2014.

Report on compliance with other legal and regulatory requirements

Opinion pursuant to article 14, paragraph 2, subparagraph e), of Legislative Decree n. 39 dated 27 January 2010 and of article 123-bis, paragraph 4, of Legislative Decree n. 58, dated 24 February 1998

The Directors of Kedrion S.p.A. are responsible for the preparation of the Report on Operation and of the specific section on Corporate Governance, as provided for by paragraph 2, subparagraph b) of the article 123-bis of Legislative Decree 24 February 1998, n. 58, of Group Kedrion as at December 31st, 2017, including their consistency with the related consolidated financial statements and their

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compliance with the applicable laws and regulations.

We have performed the procedures required under audit standard SA Italia n. 720B, in order to express an opinion on the consistency of the Report on Operations and of specific section on Corporate Governance as provided for by paragraph 2, subparagraph b) of the article 123-bis of Legislative Decree 24 February 1998, n. 58, with the consolidated financial statements of Kedrion Group as at December 31st, 2017 and on their compliance with the applicable laws and regulations, and in order to assess whether they contain material misstatements.

In our opinion, the Report on Operation and the above mentioned specific section on Corporate Governance are consistent with the consolidated financial statements of Kedrion Group as at December 31st, 2017 and comply with the applicable laws and regulations.

With reference to the statement required by art. 14, paragraph 2, subparagraph e), of Legislative Decree n. 39, dated 27 January 2010, based on our knowledge and understanding of the entity and its environment obtained through our audit, we have no matters to report.

Statement pursuant to article 4 of Consob Regulation implementing Legislative Decree n. 254, dated 30 December 2016

The Directors of Kedrion S.p.A. are responsible for the preparation of the non-financial information pursuant to Legislative Decree n. 254, dated 30 December 2016. We have verified that non-financial information as at December 31st, 2017 have been approved by Directors.

Pursuant to article 3, paragraph 10, of Legislative Decree n. 254, dated 30 December 2016, such non-financial information are subject to a separate compliance report signed by us.

Florence, April 11th, 2018

EY S.p.A.
Signed by: Lapo Ercoli, partner

This report has been translated into the English language solely for the convenience of international readers.

3.2. REPORT ON CONSOLIDATED NON-FINANCIAL STATEMENTS PURSUANT TO LEGISLATIVE DECREE 254/2016

Kedrion S.p.A.

Independent auditors' report on the consolidated disclosure of non-financial information in accordance with article 3, par. 10, of Legislative Decree 254/2016 and with article 5 of Consob Regulation adopted with Resolution 20267

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Independent auditors' report on the consolidated disclosure of non-financial information in accordance with article 3, par. 10, of Legislative Decree 254/2016 and with article 5 of Consob Regulation adopted with Resolution 20267
(Translation from the original Italian text)

To the Board of Directors of
Kedrion S.p.A.

We have performed a limited assurance engagement pursuant to Article 3, paragraph 10, of Legislative Decree 30 December 2016, n. 254 (hereinafter "Decree") and article 5 of Consob Regulation adopted with Resolution 20267, on the consolidated disclosure of non-financial information of Kedrion S.p.A. and its subsidiaries (hereinafter the "Group") for the year ended on December 31st, 2017 in accordance with article 4 of the Decree, presented in the specific section of the Management Report and approved by the Board of Directors on 29th March 2018 (hereinafter "DNF").

Responsibilities of Directors and Board of Statutory Auditors for the DNF

The Directors are responsible for the preparation of the DNF in accordance with the requirements of articles 3 and 4 of the Decree and the "Global Reporting Initiative Sustainability Reporting Standards" defined in 2016 by GRI – Global Reporting Initiative ("GRI Standards"), with regards to the selection of GRI Standards specified in the paragraph "Methodological Note" of the DNF, identified by them as a reporting standard.

The Directors are also responsible, within the terms provided by law, for that part of internal control that they consider necessary in order to allow the preparation of the DNF that is free from material misstatements caused by fraud or non-intentional behaviors or events.

The Directors are also responsible for identifying the contents of the DNF within the matters mentioned in article 3, par. 1, of the Decree, considering the business and the characteristics of the Group and to the extent deemed necessary to ensure the understanding of the Group's business, its performance, its results and its impact.

The Directors are also responsible for defining the Group's management and organization business model, as well as with reference to the matters identified and reported in the DNF, for the policies applied by the Group and for identifying and managing the risks generated or incurred by the Group.

The Board of Statutory Auditors is responsible, within the terms provided by the law, for overseeing the compliance with the requirements of the Decree.

Auditors' independence and quality control

We are independent in accordance with the ethics and independence principles of the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants, based on fundamental principles of integrity, objectivity, professional competence and diligence, confidentiality and professional behavior. Our audit firm applies the International Standard on Quality Control 1 (ISQC Italia 1) and, as a result, maintains a quality control system that includes

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documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable laws and regulations.

Auditors' responsibility

It is our responsibility to express, on the basis of the procedures performed, a conclusion about the compliance of the DNF with the requirements of the Decree and of the GRI Standards, with regards to the selection of GRI Standards specified in the paragraph "Methodological Note" of the DNF. Our work has been performed in accordance with the principle of "International Standard on Assurance Engagements ISAE 3000 (Revised) - Assurance Engagements Other than Audits or Reviews of Historical Financial Information" (hereinafter "ISAE 3000 Revised"), issued by the International Auditing and Assurance Standards Board (IAASB) for limited assurance engagements. This standard requires the planning and execution of work in order to obtain a limited assurance that the DNF is free from material misstatements. Therefore, the extent of work performed in our examination was lower than that required for a full examination according to the ISAE 3000 Revised ("reasonable assurance engagement") and, hence, it does not provide assurance that we have become aware of all significant matters and events that would be identified during a reasonable assurance engagement.

The procedures performed on the DNF were based on our professional judgment and included inquiries, primarily with company's personnel responsible for the preparation of the information included in the DNF, documents analysis, recalculations and other procedures in order to obtain evidences considered appropriate.

In particular, we have performed the following procedures:

1. analysis of the relevant topics in relation to the activities and characteristics of the Group reported in the DNF, in order to assess the reasonableness of the selection process applied in accordance with the provisions of article 3 of the Decree and considering the reporting standard applied;
2. analysis and evaluation of the criteria for identifying the consolidation area, in order to evaluate its compliance with the provisions of the Decree;
3. understanding of the following aspects:
   - group's management and organization business model, with reference to the management of the topics indicated in article 3 of the Decree;
   - policies adopted by the Group related to the matters indicated in art. 3 Decree, results achieved and related key performance indicators;
   - main risks, generated or suffered related to the matters indicated in the article 3 of the Decree;

   With regards to these aspects, we obtained the documentation supporting the information contained in the DNF and performed the procedures described in item 4. a) below;
4. understanding of the processes that lead to the generation, detection and management of significant qualitative and quantitative information included in the DNF.

   In particular, we have conducted interviews and discussions with the management of Kedrion S.p.A. and we have performed limited documentary evidence procedures, in order to collect information about the processes and procedures that support the collection, aggregation, processing and transmission of non-financial data and information to the management responsible for the preparation of the DNF.

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Furthermore, for significant information, considering the Group activities and characteristics:

- at Group level
  a) with reference to the qualitative information included in the DNF, and in particular to the business model, policies implemented and main risks, we carried out inquiries and acquired supporting documentation to verify its consistency with the available evidence;
  b) with reference to quantitative information, we have performed both analytical procedures and limited assurance procedures to ascertain on a sample basis the correct aggregation of data.
- for the site of Bolognana of Kedrion S.p.A., that we have selected based on its activity, relevance to the consolidated performance indicators and location, we have carried out a site visit during which we have had discussions with management and have obtained evidence about the appropriate application of the procedures and the calculation methods used to determine the indicators.

Conclusion

Based on the procedures performed, nothing has come to our attention that causes us to believe that the DNF of the Kedrion Group for the year ended on December 31st, 2017 has not been prepared, in all material aspects, in accordance with the requirements of articles 3 and 4 of the Decree and the GRI Standards, with regards to the selection of GRI Standards specified in the paragraph "Methodological Note" of the DNF.

Other Information

The comparative information presented in the DNF for the year ended on December 31st, 2016 have not been examined.

Florence, April 11th, 2018

EY S.p.A.

Lapo Ercoli
(Partner)

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4. REPORT ON OPERATIONS

Dear Shareholders,

The global plasma-derivatives market is currently estimated to be over 21 billion Dollars and the Kedrion Group occupies the fifth position with a share of around 3.5%.

During the 2017 financial year, the Group achieved a turnover of Euro 602.5 million (Euro 659.3 million in 2016) with a slight decrease in the plasma segment, but consolidating its international positioning through an integrated business model that allowed to realize turnover in about 100 countries with an export share that in 2017 stood at 72.9%. The United States remains the first market thanks to a 40.6% share of turnover, followed by the European Union countries with 36.8% and the Rest of the World with 22.6%.

Profitability rose to 23.2% (16.1% in 2016), thanks to the greater weight of the most profitable plasma-derivatives segment and the proceeds related to the activity of buying and selling plasma centers. Adjusted EBITDA is in fact equal to Euro 139.9 million (Euro 106.3 million in 2016), while the Operating profit, which is affected by the significant amount of non-recurring costs mainly linked to the refitting of the US plant, is Euro 51.6 million (Euro 19.8 million in 2016), equal to 8.6% of turnover. Net profit for the year amounts to Euro 6.2 million (Euro 11.8 million in 2016), equal to 1.0% of turnover.

The financial statements for the year ended 31 December 2017 include the statement of financial position, statement of profit or loss, statement of profit or loss and other comprehensive income, cash flow statement, statement of changes in shareholders' equity and the related explanatory notes, drawn up in compliance with the IFRS adopted by the European Union.

The consolidated statement of financial position shows a distinction between current and non-current assets and liabilities. The presentation format for the consolidated statement of profit or loss for the year as at 31 December 2017 is illustrated on a by function basis, the format considered more representative than the presentation by nature of expense. The adopted format, in fact, complies with internal reporting and business management methods. The cash flow statement was prepared according to the indirect method and is presented in compliance with IAS 7, thereby classifying cash flows under operating, investment and financing activities.

4.1. SEGMENT PERFORMANCE

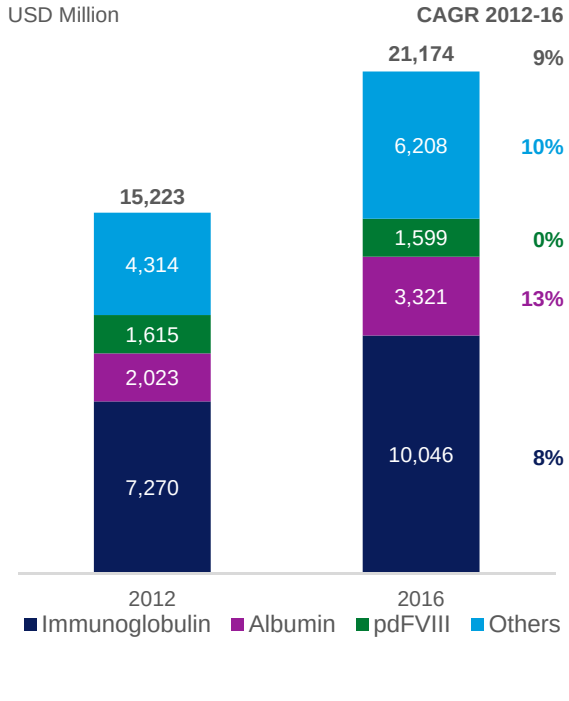
Kedrion's reference market is that of biopharmaceutical products derived from human plasma, a segment forming part of the more extensive pharmaceutical market, and is characterised by a wide range of products to treat conditions such as immunodeficiencies, haemophilia, infectious diseases and other serious illnesses. The main customers are government authorities, the national health services (through tender awards) and private distributors.

In the last 20 years, the market has faced a progressive consolidation phase, culminating with the acquisition of Baxalta by Shire in 2016, which led the three main producers of plasma products - CSL Behring, Shire and Grifols - to hold an overall market share of approximately 67%.

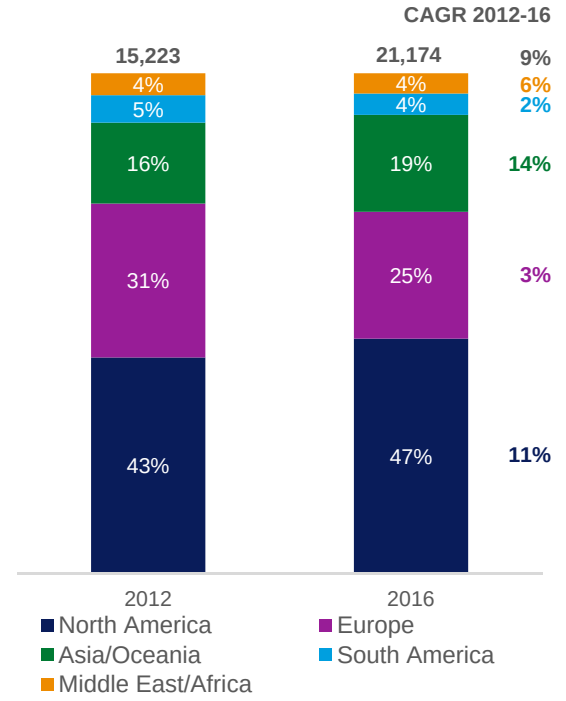
According to the latest estimates, the global plasma product market has exceeded 21 billion dollars in 2016[1], with an average annual growth rate of 8.6% for the period 2012-2016, driven by the increase in diagnosis, aging of the population and the increase in healthcare spending per capita.

At product level, the market is dominated by Immunoglobulin, which, with over 10 billion dollars, represents about 47% of the total market, with an average annual growth rate of 8.4% since 2012, thanks to the approval of new therapeutic indications, especially in the neurological field, to the increase in patients diagnosed with primary immunodeficiencies and to greater penetration in emerging countries.
The second product by value is represented by Albumin, with over 3 billion dollars of value estimated in 2016, an increase of 13.2% on average per year since 2012, driven by demand in China. The third product is Factor VIII, which represents 7.6% of the market, equal to 1.6 billion dollars, stable compared to 2012 due to the increase in the use of recombinant products.

MARKET TREND BY PRODUCT



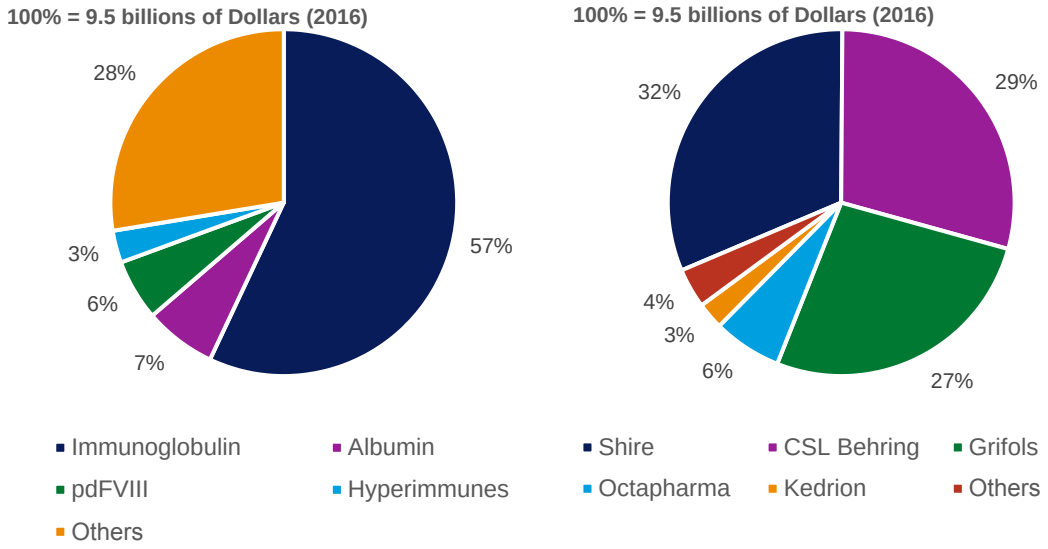
MARKET TREND BY AREA



From a geographical point of view, 72% of the market is concentrated in North America and Europe. The United States, with approximately 9.5 billion dollars[2], is the most important market with an average annual growth of 11.6% since 2012. As shown in the following graphs, even in the US Immunoglobulin has the largest share of market with around 57%. The three main players - Shire, CSL Behring and Grifols - hold 87% of the American market together, while Kedrion is fifth with a 2.5% share.

[1] *Source: Marketing Research Bureau "The Worldwide Plasma Proteins Market 2016".*
[2] *Source: Marketing Research Bureau "The Plasma Proteins Market in the United States 2016".*

US MARKET BY PRODUCT

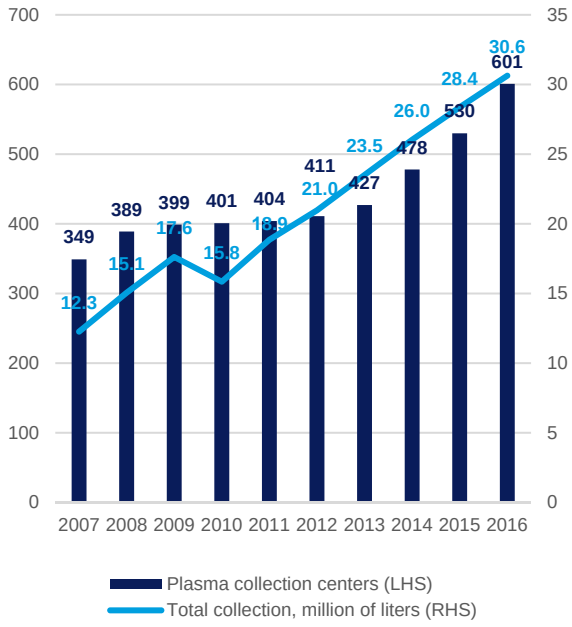


US MARKET BY COMPANY

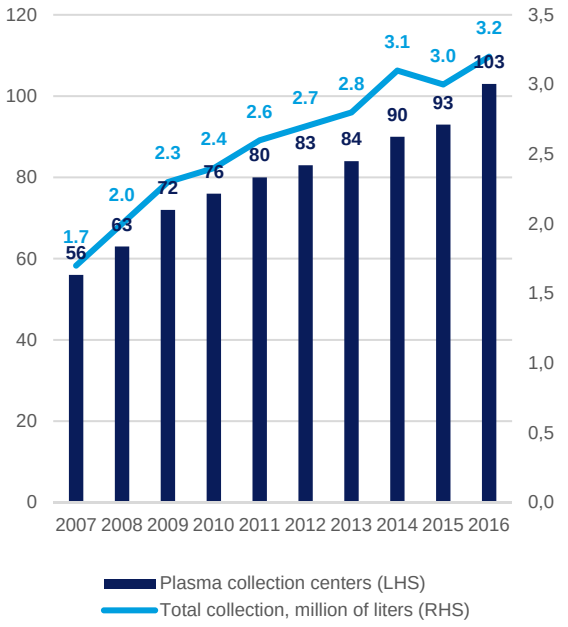
The United States are the world's first market for plasma collection, with approximately 30.6 million liters collected[3], an increase of 9.9% per year compared to 2012 and a total of 601 collection centers. In Europe, considering the countries where plasma collection is managed by private companies - Germany, Czech Republic, Hungary and Austria - 2.6 million liters were collected in 2016, with an average annual increase of 5.0 % compared to 2012, for a total of 103 centers.

Also in plasma collection activities, there has been a gradual consolidation in the last few years, due to the need of the main fractionators to secure sufficient supply of raw material, in the light of plans to increase production capacity, which see the total fractionation capacity going from the 51 million liters estimated at the end of 2017 to 77 million liters in 2022[4], of which 65% held by the three main players.

US PLASMA COLLECTION



EUROPE PLASMA COLLECTION



[3] *Source: PPTA at 31 December 2016.*
[4] *Source: Bank of America Merrill Lynch Global Research, 6 April 2017.*

The Italian plasma derivatives market is divided into the processing of plasma on behalf of the Italian Regions within the framework of the national self-sufficiency program and the commercial market.
The new principles established by the law n. 219/2015 provide that the Regions, individually or in a consortium, confer the plasma collected at the Transfusion Services and the Collection Units to the authorized companies on the basis of tenders. Currently, the companies authorized to carry out the processing of the national plasma, identified on the basis of the Ministerial Decree of 5 December 2014, are CSL Behring, Baxter (Shire), Grifols, Kedrion and Octapharma. Following the entry into force of the new regulatory regime, two tenders were awarded: the first, banned by the Veneto Region on behalf of the NAIP group[5], was assigned to CSL Behring in March 2016; the second, organized by the Emilia Romagna Region on behalf of the RIPP group[6], was won in September 2017 by a consortium composed of Grifols and Kedrion, which continues to work on behalf of the Regions that have not yet entrusted the service under the new legislation.
In 2017, about 830 thousand kilos of plasma were collected, an increase of 1.8% over the previous year[7], reaching important levels of self-sufficiency.
In terms of products, in recent years a steady growth has been observed for the main plasma products, in line with international markets, with the exception of Albumin and Antithrombin, which have a constant demand.
On the whole, based on the most recent estimates by MRB, PPTA and IMS, the Italian market in 2017 (including the recombinant market) was approximately 620 million Euro (Kedrion share is 26%); excluding instead the recombinant market (both commercial and contract work) is equal to 280 million Euro and Kedrion is the leader with approximately 55%.

4.2. **BUSINESS OPERATIONS**

Kedrion is one of the leading international groups in the development, production and distribution of a wide range of products derived from human plasma. Its life-saving products are used to treat patients with haemophilia, immunodeficiencies, infectious diseases and other serious conditions in around 100 countries worldwide.
Its global presence is articulated through an integrated business model that ensures the constant availability of the raw material thanks to 24 collection centers owned between Europe and the United States, 6 production plants and a rigorous quality control on the entire production chain. The production plants are subject to constant technological development geared towards excellence and upgraded periodically to ensure the highest safety standards at all levels of production. The plant in Bolognana (LU) is the only plant in Italy capable of producing the whole range of blood products, while that of Sant'Antimo (NA) is specialized in the production of specific immunoglobulins and inactivated plasma viruses. The Godollo plant (Budapest) was originally dedicated to supplies for the European and Asian markets and, following a major restructuring that has more than doubled its capacity, since the end of 2012 it also produces intermediates for the Bolognana plant, where they are then brought to the finished product. The Melville US plant, purchased during 2012 and initially leased to Grifols, is managed by Kedrion starting from July 2013 by fractionating plasma mainly for Kedrion American market and for third parties; it is currently undergoing restructuring. In addition to these plants, there is another small plant in Siena dedicated to the research and development of orphan drugs and the new plant in Castelvecchio Pascoli (LU), currently being completed, which will be dedicated to the purification of the 10% immunoglobulin (KIg10).

[5] Abruzzo, Basilicata, Friuli Venezia Giulia, Liguria, Umbria, Valle d'Aosta, Veneto, Provincia Aut. di Trento, Provincia Aut. di Bolzano.
[6] Emilia-Romagna, Puglia, Calabria e Sicilia.
[7] Source: Centro Nazionale Sangue.

The Group operates in three business segments:

- *Production and sale of plasma derivatives*, i.e. proteins extracted from human plasma such as albumin, standard and specific immunoglobulins, and coagulating factors;
- *Collection and sale of plasma.* The Group has some collection centers that have primarily secured the supply of the plasma needed to cover the needs of the plasma-derivatives segment, then allocating the surplus to the sale to third parties;
- *Other activities* including the toll manufacturing of intermediates and other products and the marketing of other pharmaceutical specialties including recombinant factor VIII, benefiting from the strong positioning of the Kedrion distribution network.

The Group operates worldwide, segmenting its markets into four geographical macro areas: Italy, European Union, United States and Rest of the World.

4.3. SIGNIFICANT EVENTS DURING THE YEAR

4.3.1. "PRODUCTION AND SALE OF PLASMA DERIVATIVES" SEGMENT

MELVILLE PLANT'S REFITTING

With regard to the plasma derivatives segment, the main (expected) event that affected the performance of the year is represented by the continuation of the project of total shutdown of the Melville plant from April 2016 (so-called "refitting") for (i) the complete refitting of the existing fractionation line with the aim of completing the integration and harmonization of this plant with the other plants of Kedrion Group, as well as the implementation of some recommendations received from the US Food & Drug Administration (FDA) and (ii) the realization of a fractionation and purification line of the anti-D immunoglobulin (RhoGAM), aimed at internalising the production of this specialty.

The project, which involved investments of Euro 54.1 million in 2017 for the Group (to be added to approximately Euro 29.5 million already invested in 2016), has been completed from an industrial perspective and the operational restart of the plant is expected in the first half of 2018, after the necessary validation and regulatory phases.

Melville plant's shutdown, in addition to contributing to the slight decrease in the turnover of plasma derivatives due to the lower availability of products, significantly impacted the income statement for the year due to the non-absorption of costs of the plant (that during the shutdown did not lead to corresponding production and revenues), non-capitalised operating expenses and the write-down of inventories produced before the shutdown, as well as higher depreciation for the assets replaced as part of the project, for a total of Euro 45.8 million, as well as for the reduction in sales margins due to the recourse to an outsourced manufacturing contract with Grifols for products to be sold in the American market.

NEW CASTELVECCHIO PASCOLI PLANT FOR THE PURIFICATION OF 10% IMMUNOGLOBULIN (KIG10)

During the year the project for the realization of the new Castelvecchio Pascoli (LU) plant for the purification of 10% immunoglobulin (KIg10) with the chromatographic method was continued. The ongoing Melville shutdown has also led to a delay in the industrial start-up of this project, and has extended the costs related to the start-up and to the preparatory activities to obtain the necessary authorizations and for the registration of the product. Costs which have not yet found a balance in production and related revenues are estimated at Euro 9.9 million.

TERMINATION OF BIVIGAM DISTRIBUTION AGREEMENT

In January 2017, at Biotest's request, the agreement for the exclusive commercialization on the US market of Bivigam specialty was discontinued.
The termination of the Bivigam distribution agreement led Kedrion to lose a significant source of segment revenues (approximately Euro 54 million turnover was achieved in 2016) and the related margins.
The settlement agreement signed between the parties has also foreseen the payment in the financial year of an amount of 17.5 million dollars to compensate Kedrion for the lost net profits that would derive from the distribution contract, and that have been recorded in the profit and loss account of the year in other income.

SALES PRICES

Sales prices of plasma derivatives products in this year have been characterized by a slight recovery, in particular for Albumin, with some markets, such as Turkey and Mexico, impacted significantly by the weakness of the local currency.

4.3.2. "COLLECTION AND SALE OF PLASMA" SEGMENT

LIMITED PLASMA AVAILABILITY

The Plasma segment was characterized during the year by a reduction in the volumes available to the Group, generated mainly by the lower quantities of plasma supplied by BPL Plasma compared to the provisions of the existing multi-year contract. The reduction in plasma available volumes led to a reduction in sales to third parties in favor of securing the quantities needed for production, with a reduction in segment sales of Euro 47.6 million compared to 2016.

SALES AND PURCHASES/START-UP OF OWNED COLLECTION CENTERS

On the one hand, the segment saw the sale of six plasma collection centers deemed not strategic to the Grifols Group (which was completed in February 2017), on the other hand, the purchase/start-up during the year of five centers in the United States and a center in Hungary, for a total of 24 owned centers at the end of the year.
The sale to Grifols of the six collection centers contributed significantly to the result for the period, recording an amount equal to approximately Euro 30 million among other income.

SALES PRICES

Sales prices of plasma in this year have significantly grown.

4.3.3. FINANCIAL OPERATIONS

ISSUANCE OF A NEW BOND, PARTIAL REPAYMENT OF THE EXISTING ONE AND OPERATIONS ON OTHER CREDIT LINES

As regards financial management, a number of debt optimization operations were completed, culminating with the issuance of a new Euro 350 million bond maturing in 2022 and a 3% coupon. The proceeds of the new bond were partially used to repurchase Euro 91 million of the bond maturing in 2019.
During the year, two credit lines originally repayable by April 2019 were extended to 2022 for a total amount of Euro 188 million and a new Euro 60 million revolving facility was signed, against the repayment of the Euro 90 million Term Loan outstanding at 31 December 2016.
Overall, these operations allowed Kedrion to extend its average maturity on favorable terms.
Concerning the impact on the results of the year, the above transactions entailed the charging to the income statement of higher financial costs of Euro 4.9 million, linked to the repurchase costs

of Euro 91 million of the bond maturing in 2019 and to the relative amortized cost portion, also charged to the income statement.

FOREIGN EXCHANGE

Unfavorable exchange rate fluctuations (in particular in the EUR/USD, which increased from 1.0541 at 31 December 2016 to 1.1993 at 31 December 2017) generated a negative impact on the income statement due to exchange differences realized and unrealized for Euro 17.0 million (last year the effect on the result was positive for Euro 5.3 million), as well as a decrease of the shareholders' equity of the Group and of third parties for Euro 25.7 million due to the change in the conversion reserve.

4.4. BUSINESS PERFORMANCE

	Year ended 31 December				
(In thousands of Euro)	2017	% of total revenues	2016	% of total revenues	Difference 2017/2016
Revenues from sales and services	602,501	100.0%	659,349	100.0%	-8.6%
Cost of sales	427,831	71.0%	469,927	71.3%	-9.0%
GROSS MARGIN	**174,670**	**29.0%**	**189,422**	**28.7%**	**-7.8%**
Other income	52,887	8.8%	5,827	0.9%%	807.6%
General and administrative expenses	80,757	13.4%	83,085	12.6%	-2.8%
Sales and marketing expenses	51,785	8.6%	50,836	7.7%	1.9%
Research and development costs	35,045	5.8%	33,089	5.0%	5.9%
Other operating costs	8,325	1.4%	8,447	1.3%	-1.4%
EBIT	**51,645**	**8.6%**	**19,792**	**3.0%**	**160.9%**
Financial expenses	43,750	7.3%	20,560	3.1%	112.8%
Financial income	1,953	0.3%	11,296	1.7%	-82.7%
Financial operations	**41,797**	**6.9%**	**9,264**	**1.4%**	**351.2%**
INCOME BEFORE TAXES	**9,848**	**1.6%**	**10,528**	**1.6%**	**-6.5%**
Income taxes	3,657	0.6%	(1,230)	-0.2%	-397.3%
NET INCOME (LOSS) FOR THE PERIOD	**6,191**	**1.0%**	**11,758**	**1.8%**	**-47.3%**
Net income (loss) attributable to non-controlling interest	1,003	0.2%	1,036	0.2%	100.0%
GROUP NET INCOME (LOSS)	**5,188**	**0.9%**	**10,722**	**1.6%**	**-51.6%**

4.4.1. REVENUES

A breakdown of turnover by business segment and geographical area is provided in the following tables.

REVENUES	Year ended 31 December				
(In thousands of Euro)	2017	% of total revenues	2016	% of total revenues	Difference 2017/2016
Plasma derivatives	490,016	81.3%	503,542	76.4%	-2.7%
Plasma	93,905	15.6%	141,473	21.5%	-33.6%
Other	18,580	3.1%	14,334	2.2%	29.6%
TOTAL	**602,501**	**100.0%**	**659,349**	**100.0%**	**-8.6%**

"PRODUCTION AND SALE OF PLASMA DERIVATIVES" SEGMENT

Revenues for the production and marketing of plasma derivatives as at 31 December 2017 amounted to Euro 490,016 thousand (81.3% of total revenues) with a decrease of around 3% due to the limited availability of products for the US market for the long shutdown of Melville plant and the interruption of sales of the Bivigam specialty. In fact, the plasma derivatives US market is about 9% lower than the previous year, while all the other strategic markets are growing, driven by Russia and Germany; within this segment, the US market retains slightly leadership compared to the Italian market.

Furthermore, in the financial year 2017, the weight of this segment increased, rising to around 81%, penalizing the plasma segment following the reduction in plasma availability.

"COLLECTION AND SALE OF PLASMA" SEGMENT

Revenues in the plasma collection and commercialization segment at 31 December 2017 amounted to Euro 93,905 thousand, a decrease of 34% compared to the previous year mainly due to lower volumes supplied by third parties and partially offset by an increasing collection at both American and European owned centers (managed by the Plasma Business Unit to which KEDPLASMA LLC, KEDPLASMA GmbH and the plasma division in the Hungarian company HUMAN BioPlazma Kft belong to), the number of which, despite the sale of six centers during the year 2017, remained unchanged thanks to the purchase/start-up of five owned centers in the United States and a center in Hungary.

"OTHER ACTIVITIES" SEGMENT

Revenues for this segment at 31 December 2017 amounted to Euro 18,580 thousand and relate to the sale of synthetic products and production on behalf of third parties.

One of the synthetic products is the Nuwiq, the recombinant factor VIII obtained in exclusive distribution for Italy by Octapharma with a ten-year agreement. The turnover of this product during this year (Euro 9.2 million) increased by +143% compared to 2016.

In 2017, the Group acquired the exclusive distribution in Italy on behalf of CERUS of biomedical products used for viral inactivation of platelets and human plasma: the activity was launched both for the commercial synergy with the current Kedrion positioning in the plasma-derivatives industry both for the possible development of the red cell inactivation segment for transfusion use, for which CERUS plans to obtain authorization in the coming years. In 2017 the start of the sale of CERUS products, related to the fourth quarter alone, generated revenues of Euro 0.2 million.

The production on behalf of third parties carried out at the Melville and Godollo plants for some operators in the industry, is Euro 8.5 million compared to Euro 9.8 million in 2016: this segment too has been slowed down by the refitting activity of Melville plant, while the European production, carried out at the Godollo plant, is substantially stable compared to the previous year.

The breakdown of revenues by geographical area is as follows:

REVENUES	**Year ended 31 December**				
(In thousands of Euro)	2017	% of total revenues	2016	% of total revenues	Difference 2017/2016
USA	244,389	40.6%	297,426	45.1%	-17.8%
Italy	163,589	27.1%	167,456	25.4%	-2.3%
Rest of the World	136,125	22.6%	134,910	20.5%	0.9%
European Union	58,398	9.7%	59,556	9.0%	-1.9%
TOTAL	**602,501**	**100.0%**	**659,349**	**100.0%**	**-8.6%**

USA

The turnover of this country, despite a 17.8% reduction compared to the previous year, reached Euro 244,389 thousand, maintaining its position as the leading market for Kedrion with 40.6% of total revenues. Plasma sales were the main driver of revenue reduction this year, due to failure to obtain plasma from third parties, followed by standard immunoglobulin, anti-D immunoglobulin (RhoGAM), factor VIII and albumin, which are all down compared to the previous year mainly due to Melville plant's shutdown and the interruption of Bivigam sales.
In addition to sales of plasma-derived products, in this area there is also a turnover for the third party contract manufacturing carried out in Melville plant, which also slightly decreased due to the termination of the contract work carried out for Grifols.

ITALY

At 31 December 2017, the Italian market decreased by 2.3% compared to the previous year with a turnover of Euro 163,589 thousand, equal to 27.1% of total revenues, achieved through the sale of finished products on the commercial market and the toll manufacturing for the National Health System. The decrease compared to the previous year is mainly due to the reduction in the volumes fractionated for the National Health System, partially offset by the higher sales of Nuwiq.

EUROPEAN UNION

Revenues in the European Union amounted to Euro 58.398 thousand as at 31 December 2017, equal to 9.7% of total revenues and with a slight decrease of 1.9% compared to 2016 due to the lower sales of plasma to third parties, but almost recovered thanks to an increase in plasma-derivatives sales mainly in Germany, Hungary, Poland, Austria and Portugal, which constitute the main European markets of 2017.

REST OF THE WORLD

Revenues for this geographical area as at 31 December 2017 amounted to Euro 136,125 thousand, with an increase of 0.9% compared to 2016 and representing 22.6% of total revenues. Turkey consolidated its position as the first market in this area in terms of turnover also thanks to

a complete product portfolio, followed closely by Mexico and, in any case, discounting the weakness of the local currency in both countries; together with Russia, Vietnam, Iran, Israel, they cover about 71% of the total revenues of the area.

4.4.2. OPERATING COSTS

Raw material, i.e. plasma, also recorded a price increase in 2017 in line with last years. However, the sharp reduction in US plasma volumes supplied by third parties in favor of plasma collected at own centers, less expensive than the first, led to a reduction in the average cost of plasma.
On the other hand, the prolonged Melville plant's shutdown, which, extending over the entire financial year 2017, generated a significant level of not absorbed costs, led to a significant increase in operating costs. These two elements, with opposing dynamics, offset each other, leading to an increase in the gross margin, which rose from 28.7% in 2016 to 29.0% in 2017.
To try to further improve this situation, the Group is committed to a constant search for efficiency through specific control actions and reducing the weight of operating costs.

4.4.3. ALTERNATIVE PERFORMANCE INDICATORS

In addition to the conventional indicators required under IFRS, this Report on Operations presents some alternative performance indicators used by Kedrion Group management to monitor and assess business performance. Since these indicators are not identified as an accounting measure for IFRS purposes, they should not be considered an alternative means of measuring Group performance. As the breakdown of the alternative performance indicators (EBITDA, Adjusted EBITDA, Gross Margin, Net Capital Invested, Net Working Capital, Net Financial Position) is not regulated by the reference accounting standards, the calculation criterion applied at Group level might not coincide with that adopted by other parties and is therefore not comparable.

4.4.4. ECONOMIC INDICATORS

EBITDA

The 2017 EBITDA reached Euro 77.2 million (equal to 12.8% of turnover), a strong increase compared to the previous year (+78.2%), although it was still suffering a very high level of non-recurring costs. In fact, as detailed in the specific paragraph, this item includes approximately Euro 62.7 million of non-recurring costs, of which Euro 43 million relating to Melville plant's refitting project.

Adjusted EBITDA (calculated excluding the impact of these non-recurring items) reached Euro 139.9 million (23.2% of turnover), also with a significant increase compared to 2016 (+31.6%).

Depreciation and amortization amounted to 25.9 million Euro, bringing operating profit to 8.6% of turnover.

(In thousands of Euro)	Year ended 31 December 2017	% of total revenues	2016	% of total revenues	Difference 2017/2016
Operating Income	51,645	8.6%	19,792	3.0%	160.9%
+ Amortisation and depreciation	25,895	4.3%	23,922	3.6%	8.2%
- Plant and machinery grants	(342)	-0.1%	(389)	-0.1%	-12.3%
EBITDA(*)	**77,198**	**12.8%**	**43,325**	**6.6%**	**78.2%**
Non-recurring items	62,677	10.4%	62,961	9.5%	-0.5%
ADJUSTED EBITDA(*)	**139,876**	**23.2%**	**106,286**	**16.1%**	**31.6%**

(*) EBITDA is represented by the operating income gross of amortisation/depreciation and plant and machinery grants. The adjusted EBITDA does not take into account certain one-off costs and revenues such as penalties, acquisition costs, new plants and plasma centers start-up costs, refinancing costs, employee incentives, transactions and contractual penalties. EBITDA and adjusted EBITDA defined in this manner are a measurement used by company management to monitor and assess business performance. EBITDA is not identified as an accounting measure for IFRS purposes and therefore cannot be considered an alternative means of measuring Group performance. Given that the breakdown of EBITDA is not regulated by accounting standards of reference, the calculation criterion applied at Group level might not coincide with that adopted by others and is therefore not comparable.

GROSS MARGIN

Analysis of Gross Margin by business segment for the years ended 31 December

(In thousands of Euro)	Segment Gross Margin (*) Production and sale of plasma derivatives	Collection and sale of plasma	Other activities	TOTAL
YEAR ENDED 31 DECEMBER 2017	**143,973**	**24,455**	**6,243**	**174,670**
% of total revenues of the business segment (**)	*29.4%*	*10.9%*	*33.6%*	*29.0%*
% of total Gross Margin	*82.4%*	*14.3%*	*3.6%*	*100.0%*
2017 vs 2016	*-7.9%*	*-17.4%*	*77.4%*	*-7.8%*
YEAR ENDED 31 DECEMBER 2016	**156,304**	**29,597**	**3,520**	**189,422**
% of total revenues of the business segment (**)	*31.0%*	*12.3%*	*24.6%*	*28.7%*
% of total Gross Margin	*82.5%*	*15.6%*	*1.9%*	*100.0%*

(*)The segment Gross Margin is represented by the revenues from sales and services of the segments less the production costs that may be directly allocated to the segments. With regard to costs directly allocated to sectors, the Group books direct and indirect production costs relating to the business sector, including production amortisation and all the other costs making up the cost of sales. The commercial costs, general and administrative costs, research and development costs and other operating costs are not attributed to the sectors. The segment margin defined in this way is a measurement used by Group management to monitor and assess its business performance and is not identified as an accounting measure for IFRS purposes and therefore cannot be considered an alternative means of measuring Group performance. Given that the breakdown of the sector margin is not regulated by the accounting standards of reference, the calculation criterion applied at Group level might not coincide with that adopted by others and is therefore not comparable.

(**) Calculated on segment revenues before inter-segment eliminations.

Production and sale of plasma derivatives

This segment's Gross Margin amounted to Euro 143.9 million, equal to 29.4% of total segment revenues and represents 82.4% of the Group's total margin, substantially stable compared to the previous year. The slight decrease in margins from 31.0% in 2016 to 29.4% in the current year is entirely attributable to the prolonged shutdown of Melville plant, which caused a significant amount of costs not absorbed, as well as the use of third-party processing to maintain the availability of products for the American market.

Collection and sale of plasma

This segment's Gross margin decreased from 12.3% of total segment revenues in 2016 to 10.9% in 2017. The slight decrease in margins is attributable to the increased weight of the less profitable intercompany sales to the plasma-derivatives segment compared to those to third parties. The reduction of plasma purchases from third parties due to the problems related to the supply by BPL Plasma in fact reduced plasma availability for the market, bringing to 14.3% the weight of this segment on the total Gross Margin against the 15.6% of the previous year.

Other activities

This last segment's Gross Margin grew significantly, reaching 33.6% of total segment revenues for the year ended 31 December 2017 against 24.6% of the previous year. The sharp increase in margins is linked to the increase in production activities on behalf of third parties in the various production plants that ensure a better absorption of production costs as well as the development of exclusive distribution license in Italy of the recombinant factor VIII obtained from Octapharma. The weight of this segment in terms of margins rose from 1.9% to 3.6% thanks to the increase in turnover of the two elements described above.

4.4.5. FINANCIAL OPERATIONS

Financial charges this year amounted to Euro 43.8 million compared to Euro 20.6 million in 2016 and mainly include interest expense to banks and bond holders debt, financial charges on leasing contracts, the effects of financial operations in the year (issue of a new bond and new credit lines, simultaneous repayment of part of outstanding debts), as well as the recognition of foreign exchange losses.

The increase compared to the previous year is largely attributable to the exchange losses recorded during the year due to US Dollar and Hungarian Forint fluctuations against Euro. In particular, US Dollar devaluation during the year negatively impacted the value in Euro of the financial support granted by the Parent Company Kedrion S.p.A. to the US subsidiary Kedrion Biopharma Inc. through the cash pooling system.

Greater financial costs were also incurred in connection with the refinancing operations concluded during the year, linked to the premium paid to bondholders in the tender offer for the repurchase of 91 million of the bond with maturity 2019 and the costs of the extension of the two revolving credit facilities.

The impact of financial operations (excluding exchange losses and gains) on turnover is 4.1%, compared to 2.3% in 2016.

Pre-tax profit was 9.8 million of Euro, equal to 1.6% of sales. The net income for the year was equal to 6.2 million of Euro, corresponding to 1.0% of sales, whilst the Group net income is equal to 5.2 million of Euro (0.9% of sales).

4.5. STATEMENT OF FINANCIAL POSITION

Reclassification of statement of financial position, based on financial criteria, is as follows:

(In thousands of Euro)	31.12.2017		31.12.2016	
INVESTMENTS				
Net working capital (*)	285,634	35.1%	234,597	32.0%
Fixed assets and other long-term assets	538,034	66.2%	505,775	69.0%
Short-term liabilities	(598)	-0.1%	(3,487)	-0.5%
Long-term liabilities	(9,442)	-1.2%	(3,807)	-0.5%
Net invested capital	**813,628**	**100%**	**733,078**	**100%**
SOURCES				
Net financial position (**)	444,620	54.6%	339,085	46.3%
Shareholders' equity	369,008	45.4%	393,993	53.7%
Total sources of financing	**813,628**	**100%**	**733,078**	**100%**

(*) Net working capital is calculated as current assets net of current liabilities, except for overdrafts and loans maturing within 1 year and financial assets and liabilities. Net working capital is not identified as an accounting measurement for either Italian accounting principles or for the IFRS adopted by the European Union. The calculation method applied by the Group might not coincide with that adopted by other groups, and therefore the balance recorded by the Group may not be comparable with that of others.

(**) Net financial position is calculated as the sum total of overdrafts and loans maturing within one year and non-current financial liabilities, net of cash and cash equivalents, current and non-current financial assets and fair value of financial derivatives. Net financial position is not identified as an accounting measurement for either Italian accounting principles or for the IFRS adopted by the European Union. The calculation method applied by the Group might not coincide with that adopted by other groups, and therefore the balance recorded by the Group may not be comparable with that of others.

A breakdown of movements in investments is provided in the following table:

(In thousands of Euro)	31.12.2017	31.12.2016
Due from customers	127,969	136,056
Inventories	280,180	280,880
Trade payables	(122,522)	(162,586)
Other current assets/(liabilities)	7	(19,753)
NET WORKING CAPITAL	**285,634**	**234,597**
Tangible assets	253,601	212,457
Goodwill	219,318	218,979
Other intangible assets	62,034	58,330
Assets held for sale	-	12,468
Investments in associates and other companies	2,426	2,382
Other non-current assets	655	1,159
FIXED ASSETS AND OTHER LONG-TERM ASSETS	**538,034**	**505,775**
Liabilities for employee benefits	(6,738)	(5,157)
Provisions for risks and charges	(959)	(652)
Deferred tax liabilities and prepaid tax assets	6,089	8,708
Other non-current liabilities	(7,834)	(6,706)
LONG-TERM LIABILITIES	**(9,442)**	**(3,807)**
Provisions for risks and charges	(598)	(3,487)
SHORT-TERM LIABILITIES	**(598)**	**(3,487)**

4.5.1. INVESTMENTS

In 2017, the Group made net investments of Euro 93.8 million, primarily concerned the following:

- **Melville plant (NY, USA)** for a total of Euro 54.1 million mainly for the refitting project and the new fractionation and purification line for the proprietary medicinal product RhoGAM;
- **Bolognana Plant (LU, Italy)** for a total of Euro 4.6 million, mainly for works and improvements to existing buildings and plants;
- **Sant'Antimo Plant (NA, Italy)** for a total of Euro 1.3 million for works and improvements to existing buildings and plants;
- **Godollo Plant (Hungary)** for a total of Euro 2.1 million for refers to works and improvements to the plants;

- **Plasma collection centres in Germany, Hungary and in the United States** for a total of Euro 21.1 million, of which Euro 17.9 million for the purchase of three new US plasma centres and down payments for the purchase of eight other US plasma centres, Euro 0.5 million for the opening of a new Hungarian centre, Euro 0.9 million for the opening of a new US centre and the rest for works and improvements in the other centres;
- **Castelvecchio Pascoli (LU, Italy)** for a total of Euro 6.4 million mainly referred to the KIg10 project (Euro 5.2 million) for the construction of a production facility for the new generation immunoglobulin, while the rest refers to works and improvements of the warehouse and nearby buildings;
- **Other investments** for a total of Euro 4.2 million, mainly referred to IT hardware and software investments, among which the SAP implementation in Germany and USA in the companies that manage plasma collection.

As a result, and given the investments described above, invested capital reached Euro 813.6 million.

4.5.2. NET WORKING CAPITAL

Net working capital increased from Euro 234.6 million in 2016 to Euro 285.6 million in this financial year, with a percentage on sales that rises to 47.4% compared to 35.6% in 2016. The increase in absolute value compared to the previous year is mainly due to the reduction in payables to suppliers which is equal to Euro 40.1 million. This decrease is mainly related to the peak of debt obtained in 2016 for the purchase of two plasma collection centers and significant products supplies both at the end of the year, but with payments scheduled at the beginning of 2017. Analyzing the other components, we highlight that the item "receivables from customers" decreased by Euro 8.1 million compared to the previous year, while the inventories were substantially stable.

4.5.3. FINANCIAL OPERATIONS

Taking advantage of the favorable conditions on the capital markets, in 2017 the Group completed a series of operations aimed at refinancing a large part of its medium-long term debt.
In July, Kedrion S.p.A. issued a new Euro 350 million bond with a 5-year maturity, placed with leading international investors and listed on the Irish Stock Exchange. The bond was issued below par at a price of 99.43 with a coupon of 3%, for a yield of 3.125%. At the end of the year, the price of this security was 101.48, corresponding to a of 2.646%[8] yield to maturity. The proceeds from this new issue were partially used to repurchase, through tender offer, Euro 91 million of the Euro 149 million residual debt of the bond maturing in April 2019 and with 4,625% coupon.
In the context of this refinancing process, Kedrion also extended from April 2019 until April 2022 the expiries of two of the revolving credit facilities (Euro 158 million and Euro 30 million). During the year, the Group repaid early USD 32.5 million in bank loans granted to the US subsidiary Kedrion Biopharma Inc. and EUR 90 million of the amortizing term loan of Kedrion S.p.A. maturing in September 2021. In December, the Parent Company also signed a new Euro 60 million revolving credit facility, expiring in December 2021.

The following table shows the data of medium-long term loans granted to the Group and outstanding at 31 December 2017.

[8] *Source: Bloomberg as at 29 December 2017.*

Description	Maturity	Committed amount (in thousands of Euro)	Outstanding principal amount as at 31.12.2017 (in thousands of Euro)	Interest rate as at 31.12.2017
Bond	24.04.2019	58,204	58,204	4.625%
Bond	12.07.2022	350,000	350,000	3.000%
Revolving Credit Facility	31.12.2021	60,000	-	Euribor + 2.000%
Revolving Credit Facility	02.04.2022	30,000	30,000	Euribor 6 Months + 1.650%
Revolving Credit Facility	22.04.2022	158,304	100,000	Euribor 1 Month + 1.750%
TOTAL		**656,508**	**538,204**	

The weighted average maturity of medium/long-term debt is equal to four years and two months, compared to two years and six months at the end of the previous year. The cost of debt, including also short-term credit lines, it is about 3.5%, a slight increase compared to 2016.
As we can see from the following table, as at 31 December 2017, the net financial position stood at Euro 444.6 million, compared to Euro 339.1 million in 2016, due to the greater investments made during the year and the increase in net working capital. As a result of the refinancing operations described above, medium/long-term debt increased significantly, partially offset by higher cash availability.

(In thousands of Euro)	31.12.2017	31.12.2016
Medium/long-term debt towards banks and other lenders – current portion	7,036	18,856
Current financial liabilities towards banks and other lenders	41,248	37,031
Current borrowing	**48,284**	**55,887**
Medium/long-term debt towards banks and other lenders – non-current portion	511,932	355,557
Other non-current financial liabilities	346	801
Non-current borrowing	**512,278**	**356,358**
TOTAL GROSS BORROWING	**560,562**	**412,245**
Cash and cash equivalents	(104,522)	(66,510)
Other current financial assets	(564)	(111)
Other non-current financial assets	(10,856)	(6,539)
NET FINANCIAL POSITION(*)	**444,620**	**339,085**

(*) Net financial position is calculated as the sum total of overdrafts and loans maturing within one year and non-current financial liabilities, net of cash and cash equivalents, current and non-current financial assets and fair value of financial derivatives. Net financial position is not identified as an accounting measurement for either Italian accounting principles

or for the IFRS adopted by the European Union. The calculation method applied by the Group might not coincide with that adopted by other groups, and therefore the balance recorded by the Group may not be comparable with that of others.

4.5.4. FINANCIAL INDICATORS

	31.12.2017	31.12.2016
Short-term ratio *Short-term financial payables and current share of long-term debt/ Net financial position*	10.9%	16.5%
Long-term ratio *Long-term financial payables/Net financial position*	115.2%	105.1%
Ratio - Net financial position/Shareholders' equity	1.20x	0.86x
Ratio - Net financial position/Total sources of financing	54.6%	46.3%
Leverage Ratio *Net financial position/Adjusted EBITDA*	3.18x	3.19x
Net Interest Cover Ratio *Adjusted EBITDA/Financial operations*	7.13x	7.31x
ROE	1.7%	3.0%
ROIC	6.7%	2.8%
ROA	108.7%	128.4%
ROS	6.2%	2.2%

With regard to the financial position indicators, we note a substantial increase in the relative weight of long-term debt, over the short-term debt, due to the described refinancing operations. The Net financial position/Shareholders' Equity ratio deteriorated as the net financial position has increased due to the need to fund a spike in investments linked in particular to Melville plant's refitting. The Net Interest Cover Ratio and Leverage Ratio remained stable and in a context of solid financial position.
Moving on to the other indicators, reduction was recorded by ROE, which shows the profitability of the investment in the Company's capital penalized by the high investments in progress, while ROIC (which can be broken down into ROS, representing profitability of sales, and ROA, representing profitability of assets), which measures the remuneration of invested capital, grew significantly thanks to increasing profitability, as evidenced by the ROS trend.

Looking at the cash flows summarised in the table below, we note that:

- In the financial year 2017 there was an operating cash flow of Euro 35.5 million compared to a generation of Euro 80.4 million in the previous year. This decrease is due to the increase in net working capital during this year; in particular, the incidence of net working capital rises by almost 12 percentage points compared to the previous year following the decrease in payables to suppliers as already detailed in the specific paragraph.
- In 2017, in addition to the normal level of investments required to carry out periodic efficiency improvements to ensure the highest safety standards, important projects have now been completed by an industrial point of view: such as Melville plant's refitting and those intended to internalize the process production of the new 10% immunoglobulin (KIg10) and the RhoGAM specialty. Moreover, during the year, three US plasma collection centers were purchased, two were opened in the USA and one in Hungary, while other centers are being acquired, continuing the project to increase the level of self-

sufficiency related to the raw material. The absorption of cash flow by these projects and the other previously detailed investment activities amounted to Euro 91.3 million.

- Financing activities generated a total of Euro 93.8 million in cash due to the restructuring of the debt that led Kedrion to issue in July 2017 a new Euro 350 million bond with a maturity of 5 years, placed with leading international investors and listed to the Irish Stock Exchange. The proceeds from this new issue were partially used to repurchase, through tender offer, Euro 91 million of the 149 million residual notes of the bond maturing in April 2019 and with a 4.625% coupon. During the year, the Group early repaid USD 32.5 million in bank loans granted to the US subsidiary Kedrion Biopharma Inc. and Euro 90 million of the amortizing term loan of Kedrion S.p.A. maturing in September 2021.

	Year ended 31 December	
(In thousands of Euro)	2017	2016
Net cash flow from operating activities	35,536	80,414
Net cash flow from investment activities	(91,350)	(65,130)
Net cash flow from financing activities	93,766	(7,998)
TOTAL NET CASH FLOW	**37,952**	**7,286**
Cash and cash equivalents at the beginning of the year	66,508	59,208
Net effect of conversion of foreign currencies on cash and cash equivalents	62	14
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	**104,522**	**66,508**

4.6. MAIN RISKS AND UNCERTAINTIES TO WHICH THE GROUP IS EXPOSED

The Group's main risks are foreign exchange risk, interest rate risk, credit risk and liquidity risk. Risk management is centralized in the Corporate Finance function that, in close collaboration with the Group's operational functions, identifies, assesses and hedges financial risks in compliance with the directives established by the related policy approved by the Board of Directors.

4.6.1. EXCHANGE RATE RISK

The Group is internationally active and is therefore exposed to exchange rate risk arising from the various currencies in which the Group operates. Exposure to currency risk derive from commercial and financial transactions in currencies other than the accounting currency, mainly the US Dollar and, to a lesser extent, the Hungarian Forint.

The sensitivity analysis performed to assess the Group's exposure to currency risk was conducted by assuming reasonably possible changes in the exchange rates of the US Dollar and the Hungarian Forint against the Euro. The following tables show the impact on pre-tax income due to changes in the fair value of current assets and liabilities, keeping all the other variables fixed. In addition to current assets and liabilities of a commercial nature, for the financial year 2017 financial items have been included, mainly represented by the balances of intragroup financial receivables and payables in currencies other than the accounting, re-entering the 2016 data on the same basis.

Year ended	Change in US Dollar	Effect on income before taxes (In thousands of Euro)
31 December 2016	10% appreciation	3,923
	10% depreciation	(3,201)
31 December 2017	10% appreciation	15,311
	10% depreciation	(12,309)

Year ended	Change in Hungarian Forint	Effect on income before taxes (In thousands of Euro)
31 December 2016	10% appreciation	5,192
	10% depreciation	(4,256)
31 December 2017	10% appreciation	4,984
	10% depreciation	(4,070)

4.6.2. INTEREST RATE RISK

Kedrion has two outstanding bond (Euro 58 million and 350 million) with a fixed rate and two revolving credit facilities (Euro 158 million and 30 million) with a variable rate, both currently hedged with Interest Rate Swaps (the first one up to 2019, the second one up to 2022), which represent the majority of medium/long-term financial debts. Interest rate risk to which the Group is exposed is therefore today limited mainly to short-term loans. Please see point 6.6.4 of the notes to the financial statements for the corresponding sensitivity analysis.

4.6.3. LIQUIDITY RISK

The Parent Company closely manages liquidity risk by means of strict control of the elements comprising net working capital and maintains an adequate level of cash and funds obtainable by various banking institutions. At 31 December 2017, the Group had available and unused credit lines for Euro 190.5 million, of which more than one third was short-term.
In order to make cash flow management more efficient, avoiding the dispersion of cash liquidity and minimizing financial charges, the Group also adopted concentration and centralized management systems of main Group companies' cash liquidity on Kedrion S.p.A.'s accounts (cash pooling).

4.6.4. CREDIT RISK

Most of the Group's receivables from Europe are due from hospital authorities and other public institutions, whose credit rating is considered to be reasonably sound; the Group has never, in fact, recorded losses on receivables, with the exception of the waiving of default interest. Similarly, receivables due from US customers, given the extremely short payment times and the financial strength of these customers, are considered reasonably certain and solvent. By contrast, receivables from some foreign customers (Middle East, South America and North Africa) are covered by letters of credit or other forms of security. The Group therefore believes that it does not need to implement specific credit risk management policies given the low risk of insolvency of its customers.

4.6.5. OTHER RISKS

Other possible risks to which the Group could be exposed are related to the macroeconomic environment, the performance of the Group and the industry's regulation:

- **Risks related to the high degree of regulation in the industry**
  The Group operates in a highly regulated industry and requires government authorizations to carry out its activities. The inability of the Group to obtain such authorizations for new products or to maintain such authorizations for existing products could damage its business.
- **Risks inherent to international business**
  The Group's international operations expose it to risks inherent in international activities, each of which could affect the Group's operating results.
- **Risks related to increased competition in the Italian market**
  The entrance of new competitors operating in the Italian market could reduce the Parent Company's access to Italian plasma and its fractionation activities on behalf of Italian regional authorities.
- **Risks related to the production process and to requirements under Good Manufacturing Practices**
  Plasma and plasma-derived products are fragile products and production processes are complex. Any improper manipulation of plasma and plasma-derived products or non-compliance with GMPs could have a negative impact on the Group's activities.
- **Risks related to interruptions of the normal operations of production facilities and collection centres**
  Any interruption of the normal operation of the production facilities, shipping or distribution channels of the Group or of the plasma collection centers may adversely affect its activity.
- **Risks related to increased pressure on pricing**
  The Group operates in a highly competitive industry with increasing price pressure. Furthermore, fluctuations in plasma or plasma derivatives supply or demand may influence the activities of the Group.
- **Risks related to technological changes**
  Technological changes in plasma-derivatives production and the development of alternative products could make the Group's production processes and products uneconomic.

4.7. DIVIDEND POLICY

Pursuant to Art. 30.3 of the Articles of Association of Kedrion S.p.A., net profits as reported in the financial statements duly approved by the Shareholders' Meeting will be allocated as follows: a) at least 5% to the legal reserve until this reaches one fifth of share capital; b) no less than 30% distributed as dividend, subject to a resolution of the Shareholders' Meeting and the Board of Directors' verification of compliance with any contractual restriction.

4.8. PERSONAL DATA PROCESSING

With regard to the provisions of Art. 26 of the "Minimum security criteria regulation", Annex B of Legislative Decree No.196/2003 (Privacy Code), concerning the obligation of the Data Controller to provide an update in the report on operations, it is hereby reported the following.

In March 2017, Avv. Alessandro Curotti was appointed as Personal Data Processing Manager as Giuseppe D'Agostino has concluded the working relationship with the Company. The functions entrusted are confirmed as follows:

- Guaranteeing personal data processing (all data directly or indirectly identifying a natural or legal person) with respect to Kedrion S.p.A. databases, premises and tools;
- Observe the rules and objectives of data security management as indicated in the current general criteria, Company Policies, guidelines, standards and procedures adopted by the Group;
- Identify data processors (in the specific departments/processing), providing them with written instructions;
- Provide immediate reports to the Data Controller on all matters relevant for legal purposes;
- Inform the Data Controller of any new personal data processing undertaken;
- Destroying personal data on completion of its processing, and fulfilling legal formalities as required and informing the Data Controller accordingly;
- Rapidly handling any complaint from data subjects and any queries raised by the Data Protection Authority;
- Verifying that parties handling personal data comply with the security measures;
- Performing data processing while guaranteeing maximum confidentiality.

The following activities have been carried out, during 2017, in compliance with the Privacy legislation:

- Redrafting of relevant documents in the context of Privacy relating to the Company's website, which has been implemented with a new Privacy policy and new information;
- Review and implementation of the appointments to Data Controller and External Supervisor to the Treatment, already in use at the Company;
- Review and implementation of information and releases for the exploitation of images, already in use at the Company;
- Revision and implementation of internal appointments to System Administrator;
- Verification of the status of implementation of the appointments of employees as persons in charge of the processing of personal data, at the end of which it is possible to conclude that the appointments to date have been conferred in full to the employees and that procedures in place allow the assignment of appointments automatically at the time of recruitment and any modification/integration/revocation of the same at the time of any change of duties;
- Preparation of documents related to video surveillance and issue a new specific corporate regulation, operating in this area;
- Review and/or implementation of procedures with the aim of creating a system for managing activities with impacts in the Privacy area;
- Mapping of the personal data flows between the Group companies, aimed at the preparation of the BCR ("Binding Corporate Rules") through which the binding rules for the circulation of intragroup personal data flows will be established.

In addition, the Company started the activities to adapt to the new European Regulations, which - together with those planned for the first months of the year 2018 - will enable the Company to reach full compliance on the subject by 25 May 2018. In particular, we proceeded:

- mapping of personal data processed by the Company. The analysis is aimed at reconstructing the type of data processed by each Company Function and the relative flow both within the Company and towards the outside, with the ultimate objective of creating a privacy management system in compliance with the provisions European organizations;

- Analysis of contracts stipulated by the Company aimed at verifying the need to adopt corrective/supplementary clauses in compliance with the Regulations;
- Verification of compliance of the applications used by the Company for the management of personal data with respect to the principles of Privacy by Design and Privacy by Default;
- Study and preparation of the procedures necessary for the adoption of the Organizational Model of Privacy;
- Analysis of the treatments that present specific risks to be subjected to the Privacy Impact Assessment.

Finally - always in compliance with the principles established by the new European Regulation - it was decided to adopt a privacy organization that provides for a plurality of Personal Data Processing Managers and, therefore, the Board of Directors, by resolution of 29 January 2018, identified the Function Managers deemed suitable for their ability, experience and reliability for this purpose and has given a mandate to the President to assign them the appointment of Personal Data Processing Managers.

4.9. MAIN FEATURES OF THE INTERNAL RISK MANAGEMENT AND CONTROL SYSTEM IN RELATION TO THE FINANCIAL REPORTING PROCESS, ALSO CONSOLIDATED (INFORMATION PURSUANT TO ARTICLE 123-BIS, PARAGRAPH 2. B) OF LEGISLATIVE DECREE 58/98)

The completeness, correctness and timeliness of the financial information is ensured by the adoption of an internal control system by Kedrion S.p.A., effective and efficient, object of constant improvement and adaptation to the evolution of business activities, the regulatory framework and the economic-social context. The components described below must be considered as integral parts of the internal control system.

4.9.1. ORGANISATIONAL, MANAGEMENT AND CONTROL MODEL PURSUANT TO ITALIAN LEGISLATIVE DECREE NO. 231/2001

Starting 2004 Kedrion has adopted a specific Organisational, Management and Control Model pursuant to Art. 6 of Italian Legislative Decree 231/2001 (hereinafter also referred to as the Model 231) to prevent the risk of committal of crimes set forth in the above Decree and, at the same time, to spread and consolidate a culture of transparency and integrity in addition to assuring fair conditions in doing business and conducting corporate activities while protecting its position and image and the expectations of those who are interested in its actions.
Model 231 is intended for all those who work towards achieving the Company's corporate purpose and is sent to Company bodies, directors, employees, and third parties who work for Kedrion in various capacities.
The effective adoption and implementation of Model 231 by Kedrion entails that all recipients of Model 231, when performing their duties, engage in fair and transparent conduct, in compliance with the Decree, with the control measures set forth in Model 231 itself and with the Ethical-Social Values embodied in Kedrion's Code of Ethical Conduct.
Moreover, the effective adoption and implementation of Model 231 required Kedrion itself:

- To supplement Model 231 with the pre-existing internal control system, also with the purpose of better monitoring and protecting all corporate processes and functions in order to prevent any conduct not complying with the law and therefore with Legislative Decree 231/2001;
- To make anyone who operates in the name and on behalf of Kedrion:

- Fully aware of the scope and effects of Italian Legislative Decree No. 231/2001;
- Fully aware that conduct must always comply with Kedrion's code of ethics, which is aimed at condemning any conduct, engaged in by whomever, prohibited by legal provisions and contrary to Kedrion's Ethical-Social Values, represented by its Code of Ethical Conduct.

The purposes, principles, and contents of Model 231 are communicated to the recipients thereof through training courses and ongoing communications and information from and to the Supervisory Body.

Moreover, those third parties who have contractual relationships with the Company must undertake to comply with the Model 231 by signing a special termination clause in the related contract, which will be enforced in the event of violations of the Model's regulations by said third party.

The objectives and the principles specified above were operatively articulated in the following elements of internal control, which also define the contents of the Model 231 adopted by Kedrion:

- Analysis of Enterprise Risk Management;
- Analysis and Mapping of Risks with respect to the crimes identified by Legislative Decree 231/2001;
- Operating procedures and control protocols for the areas potentially at risk;
- Code of Ethical Conduct;
- Internal disciplinary/sanction system defined under Legislative Decree 231/2001;
- Management control system and accounting handbook (related to the Act 262/2005) and procedures on the financial statements also for the monitoring of cash flows;
- Management control system and system of Management and control of the Area "Financial Statements" (related to the Act 262/2005), including:
  - Tasks and Responsibilities of the person in charge of the preparation of the accounting documents;
  - Operating procedures and specific protocols on preparation of corporate accounting documents, and on relations with foreign companies;
  - Audit and control plan;
- Corporate Transfer Pricing Policy in line with the provisions of the specific regulations;
- Group Cash Pooling system and Treasury Policy;
- SAP management information system, regulations for the use and management of the system, validation system;
- Antitrust Compliance Program;
- Compliance with the Regulation from the Italian Competition Authority (AGCM);
- Privacy Management Internal System;
- Social Accountability System for ethics in the relationship with employees of Kedrion and in the supply chain based on the SA8000 standard - certified by an accredited independent organization;
- Workplace Health and Safety Management System based on the OHSAS18001 standard - certified by an accredited independent organization;
- Environmental Management system in compliance with current laws and regulations, the ISO 14001 standard and the EMAS format – certified by an accredited independent organization;
- Scientific Reporting System on the basis of the guidelines issued by Farmindustria - certified by an accredited independent organization;
- Models of Quality/Safety Assurance in compliance with the best practice of the sector - Good Manufacturing Practices, Good Distribution Practices, Good Laboratory Practices, Good Clinical Practices;

- Quality Management System based on the ISO 9001 standard - certified by an accredited independent organization;
- System for the allocation of roles and responsibilities; system for the allocation of mandates, powers of attorney, and spending powers, corporate organisation charts, job descriptions;
- System for the recruiting of personnel and contractors;
- System for the assessment of employees' performance and allocation of targets;
- Compensation Policy and system for the calculation and accounting of variable pay;
- Corporate Policy for Business Ethics, updated each year by Kedrion through the issue of a specific document;
- Activity of internal and external communication on the system;
- Activity of training on the system;
- Ten Global Compact principles on human rights, work, the environment and the fight against corruption;
- Regulations (or articles of association) of the Supervisory Body;
- Appointment of the Supervisory Body of Kedrion with specific tasks to ensure the monitoring, update and correct operation of the Model;
- Procedure regulating internal information flows to the Supervisory Body.

We note in particular that the Board of Directors of Kedrion S.p.A. has established, implementing Legislative Decree 231/2001, the Supervisory Body, which has been granted the powers and the responsibilities needed to carry out the activities pertaining to it pursuant to the Decree with regard to the operation, effectiveness, adequacy and compliance with the Organisational, Management and Control Model adopted by the Board of Directors.
Kedrion has a special System of Communication with the Supervisory Body in place that enables anyone (employees and third parties) - through specific and dedicated channels and in the manners regulated by a procedure - to:

- Ask questions or raise doubts on the principles set forth in the Code of Ethical Conduct of Kedrion and Model 231;
- Ask questions or raise doubts beforehand on the activities carried out or to be carried out for Kedrion and therefore on conduct that, in performing any such activities, might involve, even if just hypothetically, an offence and the committal of the crimes identified in Italian Legislative Decree 231/2001;
- Report alleged or suspected breaches of ethical principles set forth in the Code of Ethical Conduct adopted by Kedrion and the measures set out in the Model 231;
- Report any other information related to the elements and contents of the Model 231.

4.9.2. BUSINESS ETHICS MANAGEMENT SYSTEM

Kedrion - being aware of the need to circulate and strengthen a culture of transparency and honesty, as well as the importance of ensuring fair conditions in doing business and conducting the corporate activities while protecting its position and image and the expectations of those who are interested in its actions - has set up a Business Ethics Management System (hereinafter referred to as "System").
The organisational structure, which operates on the basis of specific rules and guarantees the implementation and effectiveness of the System vis-à-vis the corporate bodies; in this regard, Kedrion's Board of Directors:

- in 2004 it established, granting them the appropriate powers, the following functions:
  - Ethics Officer, which includes the implementation of the Social Accountability System based on the SA8000 standard;

- Internal Auditing, which includes the function of Risk Analysis.

¡ It has established, implementing Legislative Decree 231/2001, the Supervisory Body, which has been granted the powers and the responsibilities needed to carry out the activities pertaining to it pursuant to the Decree with regard to the operation, effectiveness, adequacy and compliance with the Organisational, Management and Control Model adopted by the Board of Directors

¡ It has also appointed an Ethics Committee, with consulting and co-ordination powers on ethics-related matters.

The Global Legal & Corporate Affairs function monitors the Antitrust Compliance Program of Kedrion, supported by Internal Audit for the activity of auditing and control, and by the other functions mentioned where necessary.

4.9.3. COMPLIANCE WITH THE REQUIREMENTS OF ITALIAN LAW 262/2005

Kedrion has defined and kept active its own system for the management and control of the processes in the "Financial Reporting" area based on the criteria and standards set forth in Italian Law 262/2005, believing that such methodology is valid and in line with the best practices in terms of financial reporting - although Kedrion does not have any obligation to comply with such regulation.

The above System provides for the following:

¡ Identification of tasks and responsibilities of the function in charge of preparing accounting documents;

¡ Operating procedures and specific protocols on preparation of corporate accounting documents, and on relations with subsidiary companies;

¡ Training of those parties which - for any reason - are involved in the financial reporting processes;

¡ Annual audit and control plan.

Moreover, to strengthen the monitoring and control of financial and administrative processes, Kedrion has adopted the Corporate Transfer Pricing Policy in line with the provisions of the specific regulations, and the group's Cash Pooling Management System with the related Treasury Policy.

4.10. PARENT COMPANY AND CONSOLIDATED SUBSIDIARIES/ASSOCIATES

4.10.1. KEDRION S.P.A.

Kedrion is a pharmaceutical company operating in the production and marketing of plasma-derived products.

In 2017 the Company continued its strategy of preserving its leadership on the Italian market and expanding in the international markets, generating a 3.2% increase in sales, equal to Euro 318.2 million (Euro 308.4 million in 2016). This year the overall increase in turnover was mainly due to the increase in recombinant factor VIII's (+24%), factor IX's (+23%) and PTC's (+55%) turnover. Marginality was essentially stable, while other revenues growth was partially offset by the increase in commercial expenses to promote foreign markets development. Adjusted EBITDA was therefore Euro 45.3 million (Euro 42.9 million in the previous year), EBIT rose to Euro 12.9 million (Euro 7.2 million in 2016), while in terms of financial management approximately Euro 12.2 million of higher costs were recorded, mainly due to exchange rate losses and higher charges incurred for financial transactions completed during the year by the Parent Company, which allowed restructuring the average maturity of existing loans and medium-long term bank credit lines.

Finally, net profit stood at Euro 5.1 million (Euro 8.3 million in 2016) due to the reduction in taxes caused by the tax credit utilization accrued on Research and Development costs.

4.10.2. KEDRION BIOPHARMA INC.

This company incorporated under US law, originally called Kedrion Melville Inc, a wholly-owned direct subsidiary, owns a production facility with a fractionation capacity of approximately 1 million litres bought as part of a framework agreement with Grifols signed in 2011 that has also provided access through Kedrion Biopharma Inc. (later incorporated), to the most important market. In 2012, the acquisition of the proprietary medicinal product RhoGAM was then perfected. On 1 January 2015, the Company incorporated Kedrion Biopharma Inc., establishing a single US company dedicated to pharmaceutical production and distribution mainly targeting the US market. The Company name was later changed to Kedrion Biopharma Inc. From 1 December 2016, Kedrion merged Haemopharm Inc., formerly holding of the business unit responsible for plasma procurement. The merger simplified the corporate structure on the American market and Kedrion Biopharma acquired 100% of KEDPLASMA LLC, to directly control the plasma supply for the US market required for its production needs.

At the beginning of January 2017, an agreement was signed with Biotest for the termination of the exclusive marketing agreement on the US market of Bivigam, a 10% intravenous liquid immunoglobulin indicated for the treatment of primary immunodeficiencies. This settlement agreement led to the payment by Biotest of an amount equal to 17.5 million Dollars in order to offset KBI for the lost net profits that would derive from the distribution agreement.

During 2017, Melville plant underwent a major restructuring that involved investments for approximately USD 65 million in the year with the construction of a new fractionation facility and a new production line for the RhoGAM specialty.

This extended closedown was partially offset, in terms of products availability, by outsourcing the production to Grifols, therefore generating a turnover of USD 191.0 million (USD 206.0 million in 2016). The driver of the sales were mainly standard immunoglobulin, anti-D (RhoGAM), factor VIII and albumin immunoglobulin. The adjusted EBITDA amounted to USD 44.8 million against USD 28.7 million in 2016, with a significant increase in profitability due to a different sales mix. The net income for the year showed a loss of USD 36.9 million (compared to previous year loss of USD Dollars 8.5 million) due to the significant non-recurring costs related to the plant refitting.

4.10.3. HUMAN BIOPLAZMA KFT.

Kedrion S.p.A. acquired 100% of the shares in HUMAN BioPlazma Kft. on 31 December 2007, thus increasing its overall production capacity thanks to the plant located in Godollo, near Budapest. In the second half of 2012, the new facility also started operations, increasing the overall fractionation capacity to 550,000 litres per annum, ensuring a more efficient absorption of production costs. In April 2015 the assets of the subsidiary Plazmaferezis Kht., owner mainly of three plasma collection centres in Hungary, were transferred to HUMAN BioPlazma, while the Company Plazmaferezis was wound up.

Plasma collection gave a good performance, increasing the volumes of plasma available in the centres by approximately 2%, all used for the production of plasma derivatives, thanks to the opening of two new centers. The turnover in 2017 was equal to Euro 42.1 million (against Euro 43.7 million in 2016), showing a small decrease with respect to the previous year, due lower sales of intermediate products and a small reduction in the volumes of contract work for third parties; profit was Euro 2.1 million (Euro 2.6 million in 2016).

During the financial year 2017, the National Blood Transfusion Service (NBTS) sued HUMAN BioPlazma for a value of approximately Euro 37 million to be recognized as price difference between the one actually agreed and paid on plasma purchases made until 2015 and the highest

one that NBTS considers established by a Legislative Decree of 1992. The law firm to which the Company has entrusted the assessment of the request and its quantum found the groundlessness of the same and therefore considers remote the possibility of losing in a legal proceding.

4.10.4. KEDRION INTERNATIONAL GMBH

This company - incorporated under Austrian law and wholly owned by Kedrion S.p.A. - operated as a distributor of Kedrion products in the European Union and within some important Asian markets. At the end of 2016 Kedrion International underwent a reorganization process that involved the transfer of the German market to KEDPLASMA GmbH (effective 1 January 2017) and all the other markets (except those of Austria and Poland) to Kedrion S.p.A. (effective 1 November 2016), as well as the two subsidiaries Kedrion Portugal and Kedrion Swiss. The financial statements as at 31 December 2017 show a turnover of Euro 15.2 million on the Austrian and Polish market, in particular thanks to standard immunoglobulin and albumin. The profit for the year amounted to Euro 1.6 million (Euro 3.6 million in 2016).

4.10.5. KEDRION SWISS S.A.R.L.

Kedrion Swiss was established in 2008 and wholly owned by Kedrion International until 2016. It primarily carries out the marketing of Kedrion products in Switzerland. In 2017 the difficult process of penetration in this market continued, with sales almost entirely of standard immunoglobulin at excellent prices but still modest volumes, resulting in the Company loss of Euro 0.3 million at the end of the year. Following the reorganization of Kedrion International the stake in Kedrion Swiss was transferred to Kedrion S.p.A.

When the budget for 2018 was drawn up, a reorganization of the commercial area was approved with the assignment of a job to an employee in this area on a full-time basis in order to ensure constant presence throughout the territory.

4.10.6. KEDRION PORTUGAL - DISTRIBUIÇÃO DE PRODUTOS FARMACÊUTICOS UNIPESSOAL, LDA

Kedrion Portugal, with headquarters in Alges (Lisbon), was acquired in December 2010 with the objective of distributing Kedrion products in the Portuguese market. Following the reorganization of Kedrion International the participation in Kedrion Portugal was also transferred to Kedrion. In 2017 the Company maintained its position on the local market, also as a result of the use of a direct sales force. Turnover, slightly down compared to 2016, is equal to Euro 5.3 million, keeping the slight profit of Euro 0.1 million constant.

4.10.7. KEDRION MEXICANA S.A. DE C.V.

This company - incorporated under Mexican law - was set up in June 2008 for the purpose of distributing Kedrion products in Mexico. Kedrion S.p.A. holds 60% of the share capital, while the remaining 40% is held by a local partner, Medici Pharma, S.A.P.I. de CV. ales for 2017 showed a slight increase, reaching Euro 25.1 million, thanks above all to higher sales of Factor VIII (+ Euro 1.8 million), ending the year with a profit of Euro 2.8 million, slightly down compared to Euro 3 million of the previous year.

4.10.8. KEDPLASMA LLC

This company - incorporated under US law, and of which Haemopharm acquired the remaining 50% of share capital in October 2008 (while the first 50% was acquired at the end of 2004) - increased collection by more than 66% in its centers, compared with previous year. Currently the Company owns fourteen plasma collection centres already in operation as a result of the

acquisition in the current year of three more centres and the opening of two other centers, keeping unchanged the total number of centers despite the sale of six centers to Grifols in February 2017. This significant development is linked to the will of the Kedrion Group to cover the production needs of the plasma derivatives segment progressively increasing the share of internal plasma compared to purchases from third parties. In fact, there was a reduction in volumes purchased equal to 47% compared to the previous year, as a result of the reduced supplies by BPL Plasma, one of the main suppliers with a multi-year contract.
In 2017 the Company sold more than 1.2 million litres for a total amount of USD203.4 million with a slightly decrease of around 4% with respect to the previous year due to smaller available volumes for the problems of the BPL supplier. Adjusted EBITDA rose sharply to USD 41.3 million, compared to Euro 18.4 million in 2016, thanks to the income from the sale of the six centers, as well as higher margins due to the rising price of plasma on the market.

4.10.9. KEDPLASMA GMBH

This company - incorporated under German law and wholly owned by Kedrion S.p.A. (following the transfer from Haemopharm in June 2016) - was set up in June 2008 for the purposes of managing the three plasma collection centres purchased and opened in Bavaria at the end of the same year. In 2017 the Company, consolidated its collection centres, thanks also to the opening of the new centre of Augsburg, optimized its trading activities (German, Austrian, Polish and Czech suppliers), with the objective of lowering the average cost for litre of plasma and started the marketing of plasma derivatives in the local market: in fact, with effective transfer from 1 January 2017, the Company acquired the German market from Kedrion International Gmbh. Therefore, the Company generated a turnover of Euro 67.0 million in 2017 (compared to about Euro 48.4 million in 2016) with a loss of Euro 0.2 million (net profit of Euro 1 million in 2016).

4.10.10. KEDRION BETAPHAR BIYOFARMASÖTIK İLAÇ SANAYI VE TICARET ANONIM ŞIRKETI

In November 2012, Kedrion S.p.A. purchased a stake of 42.5% in this company, with registered office in Ankara, Turkey. On 2 September 2015, Kedrion S.p.A. increased its stake in the Company from 42.5% to 60%, becoming therefore the majority shareholder. In 2015 the Company began distributing pharmaceutical products, achieving in 2017 a turnover of Euro 1.2 million, in significant increase compared to the previous year (Euro 0.2 million), breaking even at the end of the year.

4.10.11. KEDRION BRASIL DISTRIBUIDORA DE PRODUTOS HOSPITALARES LTDA

This Company, 51% owned by Kedrion S.p.A. and 49% by a local partner, FBM Farma Industria Farmaceutica LTDA, has been officially registered with the Chamber of Commerce of the Brazilian state of Goias since November 2013. Subsequently, Kedrion Brasil obtained the authorisation to import biological products to Brazil, the first stage in the regulatory process that led to the registration of albumin in June 2017 and then to the one of standard and anti-D immunoglobulin. In 2014, pending the completion of this process, the Company kept distributing products of other pharmaceutical companies, and in 2017 its turnover was approximately Euro 0.2 million,closing the year with a small loss of Euro 0.2 million.

4.10.12. KEDRION BIOPHARMA INDIA PRIVATE LIMITED

On 6 December 2013 this new company in India was established, held by Kedrion S.p.A. for 60%, by HUMAN BioPlazma Kft, for 20% and by Kedrion Biopharma Inc. for the remaining 20%. This company, after applying to obtain the necessary authorisation to the import and distribution, began in 2015 to sell the Kedrion products on the Indian market, especially hyperimmunes. The

turnover in 2017 was equal to Euro 1.8 million and the company closed the year with a loss (Euro 0.7 million) caused by the low local market prices, caused by the low local market sales margin.

4.10.13. KEDRION DE COLOMBIA S.A.S.

Kedrion De Colombia was established in Colombia to consolidate the Kedrion presence in Latin America and in particular, in this important market. The procedures for the establishment of the Company were completed on 26 October 2015 and the Company, wholly owned by Kedrion S.p.A., is based in Bogotà. In 2017, the Company began direct distribution of Factor VIII, generating a turnover of Euro 0.7 million, closing the year with a slight profit (Euro 0.1 million).

4.10.14. JSC KIROV PLASMA

On 23 March 2017 a new company was set up in Russia, JSC Kirov Plasma, as envisaged by the Understanding Memorandum signed in the past between the Russian companies National Immunobiological Company (Nacimbio) and Pharmastandard, and Kedrion S.p.A. (the latter with a 25% share). This Italian-Russian partnership aims to create a joint program for the production of plasma-derived drugs in the Russian Federation and, in particular, to complete the construction of a production plant in Kirov, Russia. To date, the Company is still in the start-up phase.

4.10.15. RELATIONS WITH PARENT COMPANIES AND INVESTING COMPANIES

The shares of Kedrion S.p.A. are held by:

- Sestant Internazionale S.p.A. (69.38%);
- FSI Investimenti S.p.A. (25.06%);
- Sestant S.p.A. (5.56%).

4.10.16. EQUITY INVESTMENTS

Paolo Marcucci, Andrea Marcucci and Marialina Marcucci each hold respectively 22.74% (17.64% in full ownership and 5.10% in bare ownership with voting rights); 22.74% (17.64% in full ownership and 5.10% in bare ownership with voting rights) and 22.73% (17.64% in full ownership and 5.09% in bare ownership with right) of Sestant S.p.A.'s share capital, which directly holds 5.56% of Kedrion S.p.A. and 100.00% of Sestant Internazionale S.p.A.'s share capital, which holds 69.38% of Kedrion S.p.A.
The remaining members of the Board of Directors, the members of the Board of Statutory Auditors and key executives do not hold equity investments in Kedrion S.p.A.

4.11. **SIGNIFICANT EVENTS AFTER YEAR END**

KEDPLASMA LLC acquired two new centers (Sarasota in Myrtle Beach) from the company Immunotek Biocenters LLC, whose transfer was completed in the first days of January 2018. With this acquisition, the total number of plasma collection centers owned by the Kedrion Group is equal to 26 centers.

On 17 January 2018, a provision of the Italian Competition Authority (AGCM) was notified to Kedrion S.p.A.. This stated the beginning of an investigation procedure for possible anti-competitive conduct carried out by Kedrion S.p.A. and Grifols Italia S.p.A. in their participation in an associated form (through Temporary Joint Venture) to the tender issued by Intercenter, the Emilia Romagna Region's purchasing center, for the assignment of plasma processing service in some regions. The tender was awarded in September 2017 to the TJV Kedrion-Grifols. The proceeding was initiated pursuant to Art. 2 of the Law n. 287/1990 and to the Art. 101 TFEU following a complaint filed by other companies taking part in the tender (Baxter-Shire and CSL Behring), and must be completed by 31 December 2018.

On 19 February 2018, Kedrion S.p.A. signed an agreement ("Accordo di innovazione") at the Ministry of Economic Development, in the presence of Minister Carlo Calenda and the President of the Tuscany Region Enrico Rossi, for an investment program in Industrial Research and Experimental Development of Euro 37.5 million (of which Euro 9 million financed by the Ministry of Economic Development and Euro 1.5 million by the Tuscany Region). The investment program aims to produce a new 10% intravenous immunoglobulin (KIg10), to be carried out at the production facilities in Bolognana and Castelvecchio Pascoli (LU).

None of these events has impacts on the 2017 financial statements.

4.11.1. PERFORMANCE IN THE FIRST TWO MONTHS OF THE YEAR AND BUSINESS OUTLOOK

The objective for 2018 is to continue to grow internationally through the consolidation of sales in the US market and especially in the plasma derivatives segment, also thanks to the new KEDRAB, the anti-rabies immunoglobulin developed in partnership with Kamada and that Kedrion will distribute exclusively on the American market; and, moreover, intensifying its presence in certain strategic markets such as Germany and Russia.
Higher volumes of products available to the market will be obtained through the optimization of the production plants and the operational restart of Melville plant; prices are expected to remain essentially stable with an increase in the price of standard immunoglobulin and albumin in the Europe and US markets. To recover margins, the Company continues to strive to increase the efficiency of its production plants and decrease the cost of raw material by progressively increasing the number of directly owned plasma centres, as well by constant monitoring to contain costs.
In the first two months of 2018, consolidated sales were approximately Euro 70 million, up compared to previous year (Euro 48 million) and in line with sales forecasts in the main markets, with the exception of the United States where there was a delay in the provision of products, which will be made up in subsequent months.

4.12. SIGNIFICANT NON-RECURRING TRANSACTIONS

Following the summary of significant non-recurring costs and revenues (see explanatory notes for non-recurring costs in compliance with Consob regulation n. 15519 of 27/07/2006).

In 2017 a few significant non-recurring transactions were carried out, for a total value of Euro 74.1 million of which Euro 62.7 million with effect on EBITDA. These mainly refer to:

- **Melville plant's refitting**, consisting of the not absorbed costs both of the fractionation and of the new production line dedicated to RhoGAM (which since the time of the shutdown have not matched production and therefore related revenues) for Euro 29.6 million, the operating costs not eligible for capitalisation for Euro 1.5 million, the write-down of intermediate products inventories produced before the plant was shut down for Euro 11.9 million, and the higher depreciations for assets replaced as part of the project for Euro 2.8 million, for a total of Euro 45.8 million;
- **Start-up costs** related to the KIg10 project (Euro 7.6 million) for the construction of a plant dedicated to the production of the new generation immunoglobulin at 10%, the costs for the registration of the product itself, the new plant in Siena dedicated to the production of orphan drugs, in particular Plasminogen (Euro 6.2 million) and the higher plasma collection costs incurred in the new opened or acquired centers not yet fully operational (Euro 3.5 million);

- **Settlements and contractual penalties** mainly represented by the portion of the penalty paid by Biotest for the interruption of the Bivigam distribution contract, considered non-recurring and determined as the difference between the collected penalty and the amount of the EBITDA which the Group would have in 2017 in continuity with the previous year (Euro 4.8 million) and residually from other penalties applied by customers and suppliers for failure to supply the product in the defined contractual procedures;
- **Non-recurring incentives** for employees for a total value of Euro 2.7 million;
- **Non-recurring donations** for Euro 1.2 million;
- **Tender offer on the bond** represented by the financial charges incurred in connection with the partial repurchase of the bond issued in 2014 for Euro 4.9 million and some related consultancy services for Euro 87 thousand;
- **Tax litigation** represented by the charges related to the tax assessment suffered by the Parent Company Kedrion S.p.A. not covered by provisions accrued in the previous year.

The table shows the impact of these transactions on the profit and loss statement and the balance sheet.

Significant non-recurring transactions year ended 31 December 2017

(In thousands of Euro)	Cost of sales	Other income	General and adm.ve cost	Sales and marketing cost	R&D cost	Other operating costs	Financial cost	Income tax	Total	Effect on EBITDA
Melville plant's refitting	39,638		371		5,797				**45,806**	**43,002**
Start-up costs KIg10					9,897				**9,897**	**7,604**
Start-up costs Plasminogen					6,401				**6,401**	**6,214**
Start-up costs new plasma center					3,503				**3,503**	**3,503**
Settlements and contractual penalties	656	(4,828)	208	1,419					**(2,545)**	**(2,545)**
Non-recurring incentives to employees	45		1,894	652	45	30			**2,667**	**2,667**
Strategic consultancy and corporate restructuring			310						**310**	**310**
Non-recurring donations			1,181						**1,181**	**1,181**
Tender bond			87				4,931		**5,018**	**87**
Tax litigations			497					1,187	**1,684**	**497**
Net contingencies	71	(289)	215	27	133				**158**	**158**
TOTAL	**40,410**	**(5,117)**	**4,763**	**2,098**	**25,777**	**30**	**4,931**	**1,187**	**74,079**	**62,677**

4.13. TRANSACTIONS WITH RELATED PARTIES

In 2017, Group companies were party to various types of transactions with other companies of the same Group and with other related parties identified on the basis of the principles established by IAS 24 and specified in detail in the notes to the financial statements.
The conditions under which these transactions were actually carried out are deemed consistent with arm's length conditions. However, there is no guarantee that - if said transactions had been concluded between or with third parties - they would have negotiated or executed the transactions at the same conditions and with the same procedures.

4.14. CONSOLIDATED NON-FINANCIAL STATEMENT PURSUANT TO LEGISLATIVE DECREE 254/2016

4.14.1. INTRODUCTION OF THE KEDRION GROUP

Kedrion is an Italian biopharmaceuticals group that collects and fractionates human plasma in order to develop, produce and distribute plasma derivatives used to treat patients affected by haemophilia, immunodeficiencies and other serious diseases.
Kedrion's central focus is on people, attributing great value to both the well-being of those who benefit from its products, and of the communities and individuals with which it operates and collaborates. Kedrion is the bridge between donors and those who need cures and operates at a global level in order to increase patients' access to the treatments available.
With registered offices in Italy and a commercial presence in 100 countries worldwide, it is the fifth world player and the first in Italy in the plasma derivatives sector.
In Italy – one of the most important countries for the Group – Kedrion is a partner of the Italian National Health System, with which it collaborates pro-actively, pursuing the objective of self-sufficiency in the supply of plasma-derived medicines. At the same time, the Company places its own expertise and commitment at the service of communities and health systems all over the world to achieve the same objective, to improve the living conditions of people affected by rare diseases.
The Group manages the entire plasma transformation cycle (supply, production and distribution) and is based on a vertically-integrated business model.
Kedrion owns six production plants: three in Tuscany (the Bolognana plant and the new Castelvecchio Pascoli facility, currently undergoing completion, both in the province of Lucca; and the Siena plant, dedicated to the research and development of orphan drugs for the treatment of rare diseases); one plant in the province of Naples (in Sant'Antimo); one in Hungary (in Godollo, near Budapest) and one in the United States (in Melville, in the state of New York). The manufacturing facilities are internationally certified according to GMPs (Good Manufacturing Practices).
In Italy, around 1,800,000 people donate as anonymous, unpaid volunteers in over 300 blood donation centres on the national territory. Many Italian regions supplies plasma on to Kedrion, who transforms it into medicines that are then returned to hospitals so that they can meet the population's treatment requirements. Kedrion's activities in Italy are intended to improve plasma collection and contribute to the objective of self-sufficiency.
Abroad, Kedrion owns plasma collection centres operating in the United States, Germany and Hungary. Specifically, the collection centre in Buffalo, in the state of New York, is specialised in plasma with a high content of anti-D antibodies, used in the production of an anti-D immunoglobulin, which has a history of nearly half a century of effectiveness in preventing haemolytic disease of the foetus and newborn (HDFN).

4.14.2. THE DNF 2017 OF THE KEDRION GROUP

In accordance with Legislative Decree 254/2016 (hereinafter also "Decree"), which transposes European Directive 2014/95 to Italy, starting this year Kedrion will prepare a consolidated disclosure of non-financial information (hereinafter "DNF") related to the events of the year 2017. The Decree provides that the DNF can be prepared according to two different reporting methodologies: 1) application of international standards/guidelines; 2) adoption of an independent reporting methodology. The Kedrion DNF 2017 is prepared in compliance with the Sustainability Reporting Standards published in 2016 by the Global Reporting Initiative (GRI). Specifically, according to the GRI 101 standard: Foundation (section 3), in this DNF, made reference to the Reporting Standards indicated in the section "Methodological Note" of this DNF (GRI Referenced).

As referred to in Art. 5, paragraph 3a of the Decree, this DNF is included in the Report on Operations to the Financial Statements and was approved by the Kedrion S.p.A. Board of Directors on 29 March 2018.

The legislation provides that the DNF accounts for the main activities, policies and related results, organisational models adopted and risks generated and/or incurred in an environmental or social context, pertaining to staff, the respect of human rights and the fight against active and passive corruption, accounting both for what the Company does directly and what can be reasonably controlled on the supply chain and on the long-term effects for the stakeholders.

From an organisational point of view, the Kedrion DNF 2017 was assigned by the Chief Executive Officer to the Finance Department of the Company, which created a multi-functional working group.

4.14.3. MATERIALITY ANALYSIS

The Decree provides that the DNF covers – in the necessary measure to ensure the understanding of Company activity, its performance, its results and the impact produced by it – five thematic areas: "Employment", "Social", "Environment", "Anti-Corruption" and "Human Rights".

As provided by the Decree, in order to write the DNF, first and foremost Kedrion drafted a materiality analysis, which has the task of establishing, for each of the five areas, the topics that the Company deemed most relevant, of priority and high impact; topics for which it has drafted policies and organisational structures intended to oversee them appropriately.

The materiality analysis was approved by the departments involved and by the Chairman and Chief Executive Officer of the Company.

The material topics identified in the materiality analysis were the following:

"Employment" Area:

- Managerial development
- Employer branding
- Company well-being
- Occupational health and safety

"Social" Area:

- Relationship with local communities
- Research activities and expanded access

"Environment" Area:

- Water consumption and water cycle

- Renewable and non-renewable energy consumption
- Direct and indirect emissions
- Waste production

Topics relating to human rights and anti-corruption and bribery matters were also deemed material.
As outlined and approved in the Materiality Analysis, for this year Kedrion has not considered diversity and equal opportunities a material topic; the decision is not due to reasons of disinterest towards the topic; nor is it a result of its resolution or outdatedness. However, the Company's choice was to concentrate on topics equally central to the lives of all Kedrion people, and to postpone the constitution of an organisation and policies specifically related to the topic of equal opportunities.

4.14.4. GENERAL APPROACH ON SUSTAINABILITY TOPICS

According to Kedrion, every individual has the right to life, freedom and the safety of his/her own person. Sometimes, natural, accidental or social causes obstruct the inherent right to life, freedom and personal safety. Kedrion, due to the specific nature of the products created, helps people, communities and institutions to attenuate and remove the obstacles which impede benefiting from these rights.
Kedrion contributes to transforming inherent right (life, freedom, safety) into the social right to live in the best possible conditions. For this reason, it collects, transforms, renders active and available that vital energy which is generated and regenerated, stored and transported in the blood, so that it can be transferred from human being to human being and so that any person can enjoy their fundamental rights.
Kedrion contributes to the production and distribution of medicines derived from human plasma which are able to improve people's quality of life. It works to maintain excellent sector standards; it operates to consolidate its own role as a recognised representative of the medical and scientific, healthcare and institutional community.
Kedrion aims, in an international context, to strengthen its role as strategic partner of the healthcare systems in countries which seek to achieve self-sufficiency in the field of plasma derivatives. It produces wealth for investors, workers, and the territory, and does so in coherence with its own vision and the values of responsibility, transparency, trust and respect for people.

4.14.5. "EMPLOYMENT" AREA

Kedrion's commitment to the well-being of its employees goes beyond the simple protection of their health and safety. Although there is no single formalised policy at Group level, the elements and fundamental principles of the policies practised by Kedrion are described below and in the following sections. For example, the Company believes that training people is essential for personal and professional growth and that it must be promoted beyond the immediate effects on the evolution of the Company, rather forming one of its fundamental requirements.
Kedrion considers that making decisions in a joint manner not only allows its employees to be primary actors, but also leads to better decisions; and that personal and professional growth requires challenge and the possibility to move toward constructive criticism.
For example, the history of the Kedrion family Company leads it to recognise and promote a good balance between free time and work, placing a high value on diversity and at the same time, searching for common values.
Kedrion operates so that the health and safety of its employees are not left to chance nor good intentions, adopting a management system based on safety policies subject to frequent reviews during changes, including new processes, activities or production plants.

At 31 December 2017, the total staff of Kedrion was made up of 2,456 people, compared to 2,290 at the end of 2016 (+7%).
The Company population of the group is concentrated in Italy (46%), in the United States (32%), in Hungary (15%) and in Germany (6%), countries in which the production facilities and plasma collection centres are located; a residual amount (less than 1%) is employed in other offices.
In 2017, women counted for 1,242 people, equal to 50.6% of the total workforce, of which 22 belonged to the "Directors" professional category.

Breakdown of employees by geographic area

Region	2017	2016
Italy	1,136	1,056
Hungary	360	311
Germany	145	133
Rest of Europe	14	33
USA	787	748
Latin America	3	3
Rest of the World	11	6
TOTAL	**2,456**	**2,290**

Breakdown of employees by type of contract

	Fixed-term			Permanent		
Region	Men	Women	Total	Men	Women	Total
Italy	59	49	108	637	391	1,028
Hungary	5	15	20	172	168	340
Germany	8	21	29	24	92	116
Rest of Europe	0	0	0	7	7	14
USA	0	0	0	292	495	787
Latin America	0	0	0	2	1	3
Rest of the World	0	0	0	8	3	11
TOTAL	**72**	**85**	**157**	**1,142**	**1,157**	**2,299**

With reference to the breakdown by professional category, in 2017 45% of employees were concentrated in the "Blue Collars" category and 51% in "White Collars". On the other hand, the "Directors" category represented 4% of total employees at 31 December 2017.
Kedrion includes staff employed under management contracts, assimilated or assimilable, in the "Directors" category; employees in the offices or, if in a plant, in a supervisor or manager role (for

example in the USA plasma centres) form part of the “White Collars”; employees employed for manual work (workers, those employed in logistics and the warehouse, other operators, etc.) are “Blue Collars”.

Total number of employees by category and gender at 31.12.2017

Category	Men	Women	Total
Director	72	22	94
White Collar	560	700	1,260
Blue Collar	582	520	1,102
TOTAL	**1,214**	**1,242**	**2,456**

Total number of employees by type of contract at 31.12.2017

Type of employment	Men	Women	Total
Full Time	1,192	1,145	2,337
Part Time	22	97	119
TOTAL	**1,214**	**1,242**	**2,456**

During 2017, the Company hired 910 new people in Italy, Hungary, Germany and the United States.
In the Rest of Europe, LATAM (Latin America) and ROW (Rest of the World) regions, there were no new hires in 2017.

Total new hires by region and age group at 31.12.2017[9]

Region	< 30	30-50	> 50	Total
Italy	19	34	8	61
Hungary	37	54	5	96
Germany	13	21	17	51
USA	354	285	63	702
TOTAL	**423**	**394**	**93**	**910**

[9]The data includes all new additions, including those with temporary contracts or contracts ended during the year. The data should be read together with the following table referring to leavers in 2017.

Total new hires by region and gender at 31.12.2017[10]

Region	Men	Women	Total
Italy	27	34	61
Hungary	35	61	96
Germany	17	34	51
USA	212	490	702
TOTAL	**291**	**619**	**910**

The new hires data must be read together with the leavers, the main causes of which have been the dismissal of employees (read also from the turnover rate point of view, see the following table) and the sale of 6 plasma collection centres in the United States.
The difference between the Group's hires and terminations in 2017 does not correspond to workforce growth between 2016 and 2017, shown in the table “Breakdown of employees by geographic area” at the beginning of this section. The discrepancy derives from the fact that this table only shows personnel employed at 31 December of each year, whereas the data relating to hires and terminations also include non-employees (e.g. temporary contracts, even of extremely short duration). The Group often relies on contracts of this kind to cope with seasonal and specific demand, especially in the case of the plasma centres. For the following reporting years, the Group is structuring itself in such as way so as to provide a more coherent representation between the two types of data.

Number of terminations by reason at 31.12.2017

Reason	Number of terminations
Resignations	374
Dismissals	142
Retirements	6
Contract expirations	58
Sale of USA plasma collection centres	270
Other[11]	104
TOTAL	**954**

[10]The data includes all new additions, including those with temporary contracts or contracts ended during the year. The data should be read together with the following table referring to leavers in 2017.
[11]The “Other” category includes terminations that cannot be counted in the previous categories due to unavailability of data and information from the subsidiary companies abroad.

As regards the turnover rate related to only resignations, which is significant in particular in the United States, Hungary and Germany, it is linked to plasma collection centres subject to a rather dynamic labour market in the sector of reference and in the context of professional figures employed in the collection centres.

Turnover rate by region in the given period[12]

Region	Turnover rate	Number of people resigned	Women resigned in the period	Men resigned in the period
Italy	2.7%	31	13	18
Hungary	10.6%	38	15	23
Germany	9.0%	13	10	3
USA	37.1%	292	213	79
TOTAL	**15.4%**	**374**	**251**	**123**

The main risk related to personnel in Kedrion is linked to two factors: the high technological content of plasma working processes and the geographic location of its factories and production sites. For both reasons, there are difficulties in finding the right talents with the technical and scientific expertise and experience required to cover key roles.

A related topic is retention and the risk of losing people with key expertise and who are trained in Company processes.
As regards Italy and Hungary, the main reason for risk lies in the fact that there are very few competitors on the territory which operate in the same sector from which to find expert candidates, alongside the fact that the geographic location is not always favourable for the transfer and/or commuting of candidates coming from other regions: in this respect, attraction and retention efforts must make use of remunerative aspects and training and development content.
As regards the United States, where there are competitors and the catchment area for candidates at a national level is larger, the office and the remunerative variable can nevertheless represent a difficulty in attracting new colleagues.

Kedrion is involved in an activity of continuous relations with workers' representatives at all levels: European, national, local.
For example, Kedrion S.p.A. applies and meets the requirements of the Collective Bargaining Agreement of the Chemical and Pharmaceutical sector. Kedrion S.p.A. also has second-level agreements which provide for economic disbursements related to the achievement of certain relevant results for the Group, as regards both profitability and productivity (performance awards).
To support its commitment, over the course of 2017, Kedrion S.p.A. adopted some specific activities for its employees, including:

[12] *The data only includes and considers voluntary resignations. It does not include:*
- *terminations of temporary contracts opened and closed during the year but nevertheless before 12.31.2017 (date when the data was captured);*
- *contract terminations due to the sale of the 6 plasma collection centres in the United States (around 270 people);*
- *terminations due to other causes (retirements, dismissals and/or mutually-agreed severances).*

- Agreements to introduce Flexible Benefits, useful to allow for the total or partial conversion on a voluntary basis of the Company performance award into services or welfare services made available to all employees;
- Agreements to trial Smart Working;
- Agreements to introduce, within the single participation bonus, an "Attendance" KPI, incorporating the indications contained in the last renewal of the Chemical and Pharmaceutical CBA on "Attendance Bonus".

In HUMAN BioPlazma, second-level agreements were also made which provide for economic disbursements tended towards making the Company competitive in a highly dynamic and evolving labour market.

There are four material topics identified by the DNF 2017 in the "Employment" area: managerial development, employer branding, company well-being, and safety at work. Of these, the first and fourth are most certainly the topics which were given greater priority and relevance in relation to policies and available organisation. The managerial development topic (like employer branding and company well-being) is part of the Global Human Resources department of the Company, whereas safety at work is entrusted to the Global EHS department.

MANAGERIAL DEVELOPMENT

For Kedrion, people and their development are one of the essential assets to create value and improve Company performances. Consequently, the Company aims to increase its capacity and professionalism through a practised policy of developing human resources, which includes improving people's expertise, talent management, and work-life balance.
The topic of managerial development in this DNF will be expanded upon by describing training activities, the performance monitoring system and the remuneration and rewarding policies.

Training activities

Kedrion pays particular attention to training, recognising the importance this plays in building knowledge and maximising the technical and specialist expertise of its resources, and managerial expertise useful for driving the Company towards excellent results.
Through Scuola Kedrion (Kedrion School), a managerial and technical training project active for ten years and carried out in collaboration with the Fondazione Campus di Lucca, during 2017 the Company developed, among others, the following training and managerial development courses:

- An international course of managerial development (Kedrion Management Development Program - KMDP), aimed at talented people in the whole Group (the pilot course is being repeated over the course of 2018): 17 managers from 5 countries and all Company departments for a total 2,040 hours of training;
- Three plenary sessions aimed at 100 key people in the Company and dedicated to market orientation and business intelligence, with international speakers, round tables, and discussions with the Chief Executive Officer;
- A pilot course aimed at Kedrion S.p.A. people, structured in several stages and experiences and dedicated to newly appointed managers: 30 young mangers in Italy from all Company departments began the first stages of the programme in 2017, which will continue in 2018 and 2019 with the objective of developing competency in People Management and Development, according to the Kedrion Leadership model created during the KMDP.

These training courses share an innovative training vision which sees collaborative learning, mentorship and project work experiences used together with traditional classroom and distance training techniques.

Through local initiatives, with the contribution of external providers and by making use of relations with the employees themselves, Kedrion has made additional significant investments in training in order to improve and update the expertise necessary to carry out role-related activities correctly.

Summary of training hours carried out in 2017[13]

Region	Men	Women	Total hours	Average hours per employee
Italy	5,439	4,881	10,320	9.08
Hungary	1,834	2,760	4,594	12.76
Germany	n.a.	n.a.	n.a.	n.a.
USA	1,818	5,265	7,083	9.00
TOTAL	**9,091**	**12,906**	**21,997**	**9.64[14]**

Over the course of 2017, Kedrion has carried out nearly 22 thousand hours of training for an average of 9.64 hours per employee; there may be differences between geographical areas: in Italy, the tradition of developing managerial expertise is highly pronounced thanks to the Kedrion School.
In Hungary, over the course of the past three years, new managers were recruited and some courses dedicated to leadership and inter-departmental collaboration were carried out.
In the United States, training in 2017 was concentrated on technical topics related to refitting of the Melville plant.

Performance monitoring

In 2017, following on from previous years (in Kedrion the performance evaluation system has existed since 2009 and has been a global system since 2014), the annual evaluation process of individual performances was carried out, which is strategically relevant in human resources development. As occurred in 2016, the process involved 46.7% of the Company population and 100% of Executives and Senior Management, as MBO Eligible.

[13]The data does not include On-the-Job training related to newly recruited employees.
[14]The average is calculated using the total number of employees equal to 2,283 (excluding Rest of the World, Latin America and Germany for which data is not available).

Number of employees involved in the Performance Management process in 2017[15]

Region	Men	Women	Total
Italy	628	383	1,011
Hungary	22	10	32
Germany	5	4	9
USA	51	40	91
Rest of the World	3	0	3
TOTAL	**709**	**437**	**1,146**

By the end of 2018, it is estimated that 100% of Kedrion employees will be involved in the annual performance review cycle, according to equal rules and equal criteria worldwide.
The KedPMP (Kedrion Performance Management Process) envisages that, depending on the various roles, employees are evaluated based on achieving departmental and individual objectives and specific organisation behaviours (behavioural or managerial competency, by role). The system envisages homogeneous evaluation criteria at a corporate level for managerial roles, and homogeneous evaluation at country level, in respect of local requirements, for non-managerial roles.
An MBO system exists at corporate level, whose process is constructed in such a way so as to guarantee transparency in assigning and evaluating objectives and the greatest possible homogeneity in evaluation criteria and feedback management.
From 2017, Kedrion also introduced a global evaluation process for potential intersected with the performance evaluation: the process is named People Review, and following the 2016 pilot projects, assumed global validity in 2017. The process aims to increase management's capacity to identify dedicated training courses coherent with the Company's requirements in terms of succession plans and success planning. The population involved (239 people worldwide) represents 21% of the Kedrion employees subject to performance evaluation and includes all Executives and Senior Managers. To tackle this important step, a course dedicated to management training was promoted, called upon to evaluate the potential of collaborators (around 60 people), developing over 400 hours of training.

Remuneration and rewarding policies

As regards Rewarding and Compensation, in past years and continuing in 2017, Kedrion initiated a study which allows for roles to be categorised and segmented and which will be valid for the entire group in respect of local requirements, with the aim of promoting remuneration, development and people management policies that give value to the principles of equity and transparency.
Within the Group the remuneration policies are oriented towards guaranteeing competitiveness on the labour market, in line with the growth objectives and human resources retention, as well as differentiating remuneration tools on the basis of individual professionalism and competency.

[15] *In Italy the process extends to all employees; in the other countries it relates to the managerial population only (all Directors and some White Collar managers).*

Kedrion has a differentiated system based on the employee's professional category and/or role held, which, as well as the fixed remuneration component, may also include incentive systems (short and long term) related to individual and Company objectives.
Within the Group, according to corporate-type rules that are applied to local situations, an annual Salary Review process is provided for, connected to the output of the performance and potential management process.
Every legal entity of the Group has an employee benefits system in which, depending on the specifics of the role, context and local laws, reward choices can vary from supplementary rather than total healthcare insurance, life insurance, accident insurance, registration to supplementary pension funds, modulable benefits packages to support family choices (study of minors, domestic assistance, medical visits, travel, etc.). The benefits are assigned based on local procedures and, within the same organisational category, are assigned to all employees independently of the duration and type of the contract. In particular, there are no differentiations between part-time and full-time employees.

EMPLOYER BRANDING

In order to approach talented young people and encourage the addition of new graduates to the Group, in 2017 Kedrion further developed its Employer Branding programmes through greater collaboration in specific projects with universities and teaching institutions in territories with a greater presence.
To cite a few examples, and recalling the topics cited previously in the section on supporting local communities, in 2017 Kedrion employees lectured in schools and/or universities on the territory; they collaborated in designing and carrying out specialist post-diploma training; they participated in Job Fairs dedicated to the pharmaceutical world; they created educational and guidance internships within the various offices of the Company.

COMPANY WELL-BEING

Kedrion is committed to identifying and promoting initiatives that progressively encourage an ever greater balance between private and professional life, and to improving and developing the Company's organisational efficiency.
By way of example, some projects in this context are described below.

- In the United States (KBI), in accordance with local laws, various Flexible Working Hours initiatives have existed for several years and were in force in 2017, and provide that part of an employee's work can be carried out remotely;
- In Italy (Kedrion S.p.A.), as a pilot from October 2017, the "Smart Working" project has been initiated. The project involves 25 employees (22 women and 3 men) belonging to 3 Company departments who, in compliance with a Company regulation that was agreed, shared and laid down by the terms of the law, can benefit from the freedom to choose their preferred method of working remotely (other corporate sites, their own residence or home or other places as long as they are suitable in terms of meeting legislation on safety at work).

OCCUPATIONAL HEALTH AND SAFETY

The policies practised by Kedrion through its Environment, Health and Safety (EHS) at work department are intended to:

- Promote safety culture at every organisational level;
- Support initiatives intended to improve working conditions;
- Support local offices to manage safety in workplaces and monitor their performance.

The Italian and Hungarian offices have adopted an SSL management system which is certified according to the OHSAS 18001 standard.
In addition to preventing any accident or situation that might lead to damage to its own employees, visitors or external suppliers, in the event of an accident, Kedrion acts through an emergency structure to reduce any damages to the minimum; additionally, it tracks and analyses all incidents to study their causes and implement corrective and preventive actions.
The EHS Global structure supports the local departments to identify the causes, and shares the results of the analysis through a "safety alert" system with other sites so that everyone can learn from the errors and prevent new events from occurring.
The "Zero Accidents" objective was launched in the Operations department, which monitors accidents through indicators that measure their frequency and level of seriousness.

Injuries

The distribution of injury cases in 2017 by company is as follows:

Distribution of injury cases by company at 31.12.2017

Company	Worked hours	Number of events	Number of lost days	TIR	LWR
Kedrion S.p.A.	1,875,927	8	159	0.9	17.0
Kedrion Biopharma Inc.	489,705	5	121	2.0	49.4
KEDPLASMA LLC	694,310	19	112	5.5	32.3
HUMAN BioPlazma Kft.	575,625	4	40	1.4	13.9
KEDPLASMA GmbH	165,000[16]	6	17	7.3	20.6
Other	50,000[17]	0	0	0	0
TOTAL	**3,850,567**	**42**	**449**	**2.2**	**23.3**

The distribution of events, lost days and frequency and severity rate by geographic area in 2017 is shown in the following table:

Distribution of injuries cases by geographic area at 31.12.2017

Region	Number of events	Number of lost days	TIR	LWR
Italy	8	159	0.9	17.0
USA	24	233	4.1	39.4
Europe and Rest of the World	10	57	2.5	14.4
TOTAL	**42**	**449**	**2.2**	**23.3**

[16] *Estimated data.*
[17] *Estimated data.*

The distribution of events based on gender is shown in the following table:

% of injury cases involving female staff at 31.12.2017

Region	%
Italy	13%
USA	53%[18]
Europe and Rest of the World	40%
TOTAL	**40%**

The distribution of injury cases in 2016 by company is as follows:

Distribution of injuries cases by company at 31.12.2016

Company	Worked hours worked	Number of events	Number of lost days	TIR	LWR
Kedrion S.p.A.	1,827,727	15	189	1.6	20.7
Kedrion Biopharma Inc.	313,323	7	153	4.5	97.7
KEDPLASMA LLC	901,198	20	288	4.4	63.9
HUMAN BioPlazma Kft.	514,710	4	68	1.6	26.4
KEDPLASMA GmbH	150,000[19]	4	28	5.3	37.3
Other	80,000[20]	0	0	0	0
TOTAL	**3,786,958**	**50**	**726**	**2.6**	**38.3**

The distribution of events, days lost and frequency and severity rate by geographic area in 2016 is shown in the following table:

Distribution of injury cases by geographic area at 31.12.2016

Region	Number of events	Number of days lost	TIR	LWR
Italy	15	189	1.6	20.7
USA	27	441	4.4	72.6
Europe and Rest of the World	8	96	2.1	25.8
TOTAL	**50**	**726**	**2.6**	**38.3**

[18]The data does not account for 7 cases recorded as anonymous in the report (OSHA log-privacy cases), which occurred in the American plasma collection centres.
[19]Estimated data.
[20]Estimated data.

The injury trend in the 2016-2017 two-year period is shown below:

Injuries indicators 2016-2017 two-year period

Indicator	2017	2016	Delta 2017/2016
Number of injuries	42	50	-16.0%
Number of lost days	449	726	-38.0%
TIR	2.2	2.6	-17.0%
LWR	23.3	38.3	-39.0%

The overall data from 2017 compared with the previous year shows an improvement to the frequency and severity of the injury events.

Occupational diseases

During the 2016-2017 two-year period, only one recognised case of occupational disease occurred, which concerned a Kedrion S.p.A. employee, for lumbar osteoarthritis without limitation to the job carried out in that period.

Absenteeism

Absenteeism is reported in a punctual manner in Italy (Kedrion S.p.A.), above all in consideration of its connection with the production of payslips and economic rights acquired (in countries such as the United States, the link is not significant).
In Kedrion S.p.A., the absentee rate is calculated as hours of absence (illness, maternity, injuries, social absenteeism, union absenteeism, other absenteeism) divided by hours scheduled to be worked.
In 2017, the absentee rate was the following:

Absentee rate in Kedrion S.p.A. at 31.12.2017

Workable hours	2,143,848
Hours of absence	115,646
ABSENTEEISM RATE	**5.4%**

In general, Kedrion believes that the working environment of the various offices and factories of the Group, as shown by the level of health of the employees (injuries and occupational diseases), is coherent with the average of its competitors and with manufacturing companies of a similar size; consequently, the risk on employees from this point of view is not considered relevant or greater with regard to comparable contexts.

4.14.6. "SOCIAL" AREA

The policies practised by Kedrion have as a main element the commitment to Social Responsibility, which extends to all communities with which the Group has contact: from production factories to the environment, from donor communities to patient communities.
Kedrion strives to increase global awareness of the diseases it deals with and to improve their diagnosis, treatment and access to cures.

Kedrion pursues its objectives by supporting projects at a local level and through significant international product donations and collaborations of an educational and awareness-raising nature.
This year's DNF covers the "Social" area by describing some supportive actions of local communities and the particular orientation of research activities in favour of patients and users of the Company's products.

RELATIONSHIP WITH LOCAL COMMUNITIES

The topic of relationship with local communities recalls Kedrion's original and consolidated tradition to enhance, support and make prosper the companies closest to its own facilities, plasma centres and offices. Starting from experience gained in Italy in the Company's area of origin, with the growth of the social boundary and the internationalisation of activities, this approach has been suggested, communicated and supported.
From an organisational point of view, the activities in support of local communities are prevalently concentrated at a central level, with the Parent Company. Thus far, this choice has been dictated by historical reasons and closeness to the Company's main office, and by the various national regulations on donating blood and blood components. As a matter of fact, if in Italy it is prohibited to give your plasma in return for payment, in the United States, Germany and Hungary (the office of the other major legal entities of the Group), this remuneration, even if governed differently in each country, is required or permitted. For this reason, the Company activities that support communities in countries in which the plasma donors are compensated are usually recorded as marketing activities. Nevertheless, some of these are carried out in local communities abroad and are included in the following list.

Some activities the Company carries out in favour of local communities are as follows:

- Kedrion S.p.A. is by far the most significant employer in the areas in which its production facilities are located;
- Under the same economic and technical conditions, Kedrion's supply chain favours companies in the territories in which it has offices, also reducing the environmental impact related to transfers;
- Kedrion S.p.A. supports several activities with the Municipalities and schools in the area, including participation in a Higher Technical Institution (ITS) in Life Sciences and a teaching development project with the technical and professional secondary schools in Valle del Serchio (Borgo a Mozzano and Barga);
- The "Kedrion Cares" project is active in the United States, aimed at actively collaborating with local and national partners to promote benefit activities;
- The Kedrion Group is one of the founders of the Fondazione Campus di Lucca, a non-profit training and cultural institution which carries out university and advanced training in tourism and the development of the territory and local economies;
- Kedrion encourages local traffic reduction measures through car-sharing and car-pooling initiatives;
- Kedrion supports the activities of stakeholders qualified in the health sector through impartial contributions. In 2017, the following non-profit institutions, among others, received contributions: the Jeffrey Modell Foundation (at the Meyer Paediatric Hospital in Florence), the Italian Federation of Haemophiliacs (FedEMO) and Italian Association of Haemophilia Centres (AICE), the Italian Association for the Study of the Liver (AISF), Palermo and Roma Tor Vergata universities (haematological studies);
- Kedrion is a bridge between plasma donor communities and patients who use human plasma derivative medicines. From the point of view of donors, in the countries in which

Kedrion directly manages plasma centres, the Group companies undertake to make the donor experience as safe, efficient and pleasant as possible; in countries such as Italy where plasma is processed on behalf of third parties and collected in public donor centres, Kedrion is at the service of the national blood systems in order to support principles such as national self-sufficiency in plasma derivatives, the efficient operation and quality of collection systems and training and information about donating (for example through the “Kedrion Incontra” (Kedrion Encounters) project at the Bolognana facility and the AVIS national training school for young managers, carried out together with the Fondazione Campus di Lucca);

- Similar importance is given to patients and to the families of users of Kedrion products, both in the sense of producing drugs in the safest, most attentive and respectful way possible of strict sector regulations and in the sense of facilitating greater awareness of diseases and the therapies available to people affected by rare congenital diseases, such as those treated through medicines derived from human plasma.

In 2017, Kedrion was not subject to any economic or non-economic sanctions related to the social area (stakeholders, local communities, patients, etc.).

For the future, the Company intends to put in place the various Corporate Social Responsibility activities, also extending their field of application abroad and evaluating their impact; obviously, the Company will continue to pay attention to and meet the local requirements and national laws mentioned above.

RESEARCH ACTIVITIES, ORPHAN DRUGS AND EXPANDED ACCESS

For the Kedrion Group, innovation represents an element of distinction within its industrial model, as well as one of its main strategic tools. Thanks to innovation, the Company succeeds in achieving excellent results, identifying technological and production solutions amongst the most advanced and effective currently available, and establishing a virtuous cycle of continuously improving products and processes.

Kedrion's research and development in previous years has taken various directions:

- An industrial research activity which aims to identify new products or new production processes;
- An industrial development activity tending towards optimising the production process and guaranteeing the highest quality and safety standards;
- An activity aimed to guarantee compliance in the context of safety from pathogens.

The development of orphan drugs and delivering expanded access has always been Kedrion’s approach, coherent with its own values and the relationship that it tends to establish with the societies in which it operates.
It is noted that according to European legislation, orphan drugs are medicines intended to cure or treat diseases which pose a threat to life or chronic debilitation. In Europe, diseases are defined as rare if they affect 5 in 10,000 individuals. The economic commitment to the development and commercialisation of these drugs is important and risky; it is encouraged by specific laws which make approval times by competent bodies faster.
Patients affected by rare diseases who do not have the requirements needed to access a clinical study can access orphan medicines through expanded access, even if the drug has not yet been approved by healthcare authorities. The Ministerial Decree of 8 May 2003 “Therapeutic use of medicines subject to clinical trial” (Official Gazette n. 173 of 28 July 2003, General Series)

provides for the extraordinary use of orphan drugs, which are subject to clinical trial, on patients with endangered life or affected by a debilitating disease. The value of these cures is significant: they allow patients with no other valid treatment opportunity to use a drug, which, although it has not yet received the approvals necessary for commercialisation, could bring benefits to the patient's quality of life.

The Company's commitment to orphan drugs has led to the development of a facility dedicated to the research, development and production of these products in Siena. IKOD (Impianto Kedrion Orphan Drugs/Kedrion Orphan Drugs Facility) is the first facility of its kind in Europe and was built in collaboration with the Regione Toscana and Toscana Life Sciences.

Kedrion's commitment to orphan drugs and expanded access projects takes place in various ways, often linked to the close relationship that the Company maintains throughout the world with local and professional stakeholders: doctors, patients' associations, public and healthcare institutions. Once the Company decides to commit to a project of this kind, widely inter-departmental working groups are formed, whereas a Company department dedicated exclusively to expanded access does not exist (something which, for that matter, would perhaps make the Company less agile in initiating and conducting the various projects).

As in the case of plasminogen, the expanded access projects can provide for a future – albeit uncertain – return of an industrial and commercial kind; in other cases, as in that of administering factor V of coagulation, on the other hand, research on the drug is first and foremost made for the Company's sense of social responsibility.

It must be added that, especially in Italy, the centrality of the group in the plasma derivatives sector makes Kedrion almost ethically "obliged" to be at the disposal of the healthcare system and the requests relating to its area of activity; in some cases, actually, the risk connected to commitment in this area can depend on the fact that the expectations of the society and the patients towards the Company are very high; whereas – as is obvious – the Company cannot allocate resources to expanded access projects that are similar to those used for its main areas of business.

Kedrion's two main projects on orphan drugs are those on Plasminogen and the one on Factor V of coagulation.

Plasminogen Project

Kedrion is developing a project to increase expanded access of the human concentrate of plasminogen, a drug which has received orphan designation for the treatment of patients affected by ligneous conjunctivitis. Thanks to this project, a greater number of patients will be able to request the product and be treated before the drug is commercially available. At this time, eight patients in the world are benefiting from the possibility of receiving the expanded access treatment.

Plasminogen (PLG) is an important protein in the blood which plays a fundamental role in the dissolution of a coagulant, acting physiologically on fibrin and fibrinogen A chains. Where there is a lack of plasminogen in the blood, two types of deficiency can occur: deficiency type 1 and deficiency type 2.

Plasminogen deficiency type 1 or severe hypoplasminogenemia (HPG) is a very rare systemic disease which causes the formation of fibrin-rich pseudomembranes (with a wooden appearance) in the mucous membranes when a wound is healing. The most common clinical sign (manifested in 90% of cases) of HPG is the chronic inflammation of the conjunctiva (ligneous conjunctivitis), which can lead to blindness, but other sites can also be affected, such as the upper gastrointestinal tract, the respiratory tract, the female genital tracts, the central nervous system and the skin. The prevalence of HPG, although not properly determined to date, is estimated at around 1.6 cases per million of inhabitants. Clinical onset usually occurs in early childhood, but

can manifest at any age and be brought on by repeated microtraumas (dust, foreign body), surgical interventions or local inflammation.
Since no approved drug is available yet for plasminogen replacement therapy in patients affected by HPG (and ligneous conjunctivitis in particular), it has been treated in previous years through the surgical resection of ocular lesions (pseudomembranes) and/or use of non-indicated drugs including corticosteroids, antibiotics and heparin. Each of these approaches, however, do not have entirely effective results, and have lesser resolving power.
At present, Kedrion S.p.A. is working to complete all preparatory phases for the Marketing Authorisation process of the product. In the meantime, the Company is, on the one hand, continuing to make the preparation available to patients who have taken part in the clinical study (currently 6 of 12) and, on the other and within the limits of current production capacity, is providing the product in expanded use treatment to 8 patients affected by ligneous conjunctivitis (4 in Italy, 1 in Spain, 1 in France, and 2 in the USA).
Kedrion intends to expand the expanded access programme and treat 30 patients worldwide in the next three years.

Factor V Project

Factor V is a plasma protein present in a concentration of around 7 µg/ml in healthy individuals. It carries out a crucial role in haemostasis: as a matter of fact, it has a pro-coagulant role in the coagulation cascade, participating in the formation of thrombin.
Congenital factor V deficiency, alone or in combination with factor VIII deficiency, is an extremely rare haemostasis disease which occurs in 1:1,000,000 of the population. Individuals affected by a lack of this protein manifest haemorrhaging in various areas and magnitudes: epistaxis, menorrhagia, haemarthrosis and haematomas, and those more serious, including intracranial and gastrointestinal.
To date, no specific factor V concentrate is available for which treatment of deficiency in this protein restores the deficient factor using fresh frozen plasma, which, however, leads to risks and complications including: allergic reactions, development of alloantibodies, overload of volume and viral infections. Treatment involves the administration of around 750-1000 ml of fresh frozen plasma at least two times per week.
At the moment, there are no factor V concentrates available on the market. The low interest in developing these concentrates is due to the fact that the disease associated with this deficiency (parahaemophilia or Owren's disease) is very rare. Also, the natural history and spectrum of clinical manifestations are not entirely known, due to the scarcity of clinical cases to observe and study.
Kedrion is developing a factor V concentrate, currently the only company in the world to do so. Development of the concentrate is still in an initial research/development phase aimed at optimising the purification production process, with the first toxicity studies on animals estimated for the first quarter of 2019.
At the time of the first clinical phases, it will be possible to provide the product for expanded access to some patients lacking this protein. In 2019, the "Orphan Drug Designation" request is also envisaged in both Europe and the United States.
The IKOD facility in Siena will be used for the production of the first clinical batches.

4.14.7. "ENVIRONMENT" AREA

Kedrion's attention to the environment starts from the territory in which its employees operate. From the workplace, it extends to the communities which surround the Company, with a strong commitment to reducing environmental impact to a minimum. Conscious of man's responsibility

in global climate change, Kedrion's environmental policy contributes to mitigating the consequences of human activity on the surrounding environment.
Kedrion employees are aware of environmental protection and operate to evaluate and monitor environmental aspects connected to activities carried out, pursuing opportunities for improvement.
The Kedrion management team undertakes to implement, maintain and document its processes and activities in compliance with the highest quality standards, including, for example:

- UNI EN ISO 14001 and EMAS Standard (Eco-Management and Audit Scheme);
- BS OHSAS 18001 (Occupational Health and Safety Assessment Series).

Participation in Global Compact[21] involves a global commitment to improving environmental services, which are put into action in a strategy founded on principles of:

- Optimising resources and endorsing sustainable ones;
- Reducing negative impact;
- Spreading an environmental culture within and between external collaborators.

The organisation has a "Global Engineering and EHS" structure in the aim of supporting local offices to manage environmental aspects and monitor their performance. The Italian offices have adopted an environmental management system according to ISO 14001.
The offices in Lucca (KIg10 production site, Castelvecchio Pascoli warehouse, Bolognana site and administrative offices) and the Sant'Antimo (NA) site are certified ISO 14001 and EMAS: the IKOD site in Siena is preparing to obtain an extension to the certificate in 2019.
In 2018, the environmental management system will also be extended to the Hungarian site with the objective of obtaining ISO 14001 certification in 2019.
The adopted model integrates the monitoring and control activities of environmental performance required by the Integrated Environmental Authorisations applicable to the sites mentioned.
The Italian offices have an Energy Management structure with the aim of optimising the use of energy resources through analysis and monitoring activities and promotion of initiatives.

WATER CONSUMPTION AND WATER CYCLE

Attention to water resources is concentrated on the use of water provided by the public utilities and water coming from wells and on wastewater production.
Water taken from production facilities is mainly used to power cooling systems, softeners, steam production, washes and sanitation. In the other offices, it is used as domestic hot water and for cleaning the workplaces.
The risks connected to the water resource depend on the presence of obligations required by legislation or specific authorisations. Water consumption can constitute a risk connected to the capacity of local infrastructures and the availability of the resource (aqueduct and wells), constituting a constraint with regard to any increases in production capacity. Furthermore, an increase in water consumption corresponds to an increase in wastewater, whose hydraulic load is governed by authorisation and/or technical/infrastructural limitations.
Wastewater derives from the processes of the six production sites, which is transferred to the public utilities in accordance with legislation and regulations in force in terms of hydraulic load and qualitative characteristics of the wastewater.
Discharge is prevalently of an industrial kind and a minor percentage of 10% is represented by domestic hot water waste.

[21] *United Nations Global Compact is a United Nations initiative created to encourage companies worldwide to adopt sustainable policies that respect corporate social responsibility and make the results of actions undertaken public. It is a framework that encompasses ten principles in the areas of human rights, employment, environmental sustainability and anti-corruption. To pursue the ten Global Compact principles, companies cooperate with United Nations agencies, union groups, stakeholders and civil society in general.*

Contributions of the individual companies to the consolidated data is expressed in terms of percentage in the table below (referring to data from 2017):

Water balance (water consumption and discharges in cubic metres) by company at 31.12.2017

Company	Water consumption from public utilities (cbm)[22]	Water consumption from well (cbm)	Total water consumption (cbm)	Total water consumption (%)	Wastewater (cbm)[23]	Wastewater (%)
Kedrion S.p.A.	198,651	331,350	**530,001**	70%	337,823	60%
Kedrion Biopharma Inc.	48,508	0	**48,508**	6%	51,750	9%
KedPlasma LLC	12,000	0	**12,000**	< 3%	12,000	< 3%
HUMAN BioPlazma Kft.	159,519	0	**159,619**	21%	159,519	28%
KEDPLASMA GmbH	4,000	0	**4,000**	< 1%	4,000	< 1%
Other	1,000	0	**1,000**	< 1%	1,000	< 1%
TOTAL	**423,678**	**331,350**	**755,028**	**100%**	**566,092**	**100%**

From the table, the significant contribution of Kedrion S.p.A. is evident, connected to the presence of the two main production facilities, followed by HBP Kft. and Kedrion Biopharma Inc., which also have production facilities located in Godollo and Melville respectively.
The breakdown of water consumption and discharges per geographic area is shown below:

Water balance (water consumption and discharges in cubic metres) by geographic area at 31.12.2017

Region	Water consumption from public utilities (cbm)	Water consumption from well (cbm)	Total water consumption (cbm)	Total water consumption (%)	Wastewater (cbm)	Wastewater (%)
Italy	198,651	331,350	**530,001**	70%	337,823	60%
USA	60,508	0	**60,508**	8%	63,750	11%
Europe and Rest of the World	164,519	0	**164,519**	22%	164,519	29%
TOTAL	**423,678**	**331,350**	**755,028**	**100%**	**566,092**	**100%**

[22]The data is the sum of consumption measured (Bolognana, Sant'Antimo, Castelvecchio Pascoli and Melville) and estimated (Siena, offices and plasma collection centres).
[23]Discharges measured for Bolognana, Sant'Antimo, Castelvecchio Pascoli, Godollo and Melville; estimated for Siena, offices and plasma collection centres.

The following table summarises water consumption and quantity of wastewater discharged on a global level for the 2016-2017 two-year period:

Water balance 2016-2017 two-year period

Index (CBM)	2017	2016	Delta 2017/2016
Consumption of water from public utilities	423,678	458,128[24]	-8%
Consumption of water from well	331,350	363,867	-9%
Total water consumption	**755,028**	**821,994**	**-8%**
Wastewater	566,092	584,342[25]	-3%

As shown, 2017 recorded a decrease in both water consumption and the amount of wastewater transferred to the public utilities.

RENEWABLE AND NON-RENEWABLE ENERGY CONSUMPTION

The production sites mainly use energy sources for the production of cold, heat and steam, as well as to power the factories and lighting.
The provision of electric energy presents constraints related to the infrastructures which can impact on the continuity of the service and on any production developments, even if there are emergency generator systems for the most critical equipment.
The Bolognana facility produces part of the electric energy consumed through a cogeneration system, which, in addition to having lower environmental impact, guarantees improvement in the quality of the supply even if it does not reduce the risks related to any interruptions from the grid.
No particular constraints of a legal/authorising type exist for the various sites.
Monitoring and related energy diagnosis, required by the Integrated Environmental Authorisations applicable to the Italian sites and by the legislation on the reasonable use of energy, represent an opportunity for interventions intended to optimise consumption.
The use of natural gas, both for the production of electric energy and steam, is the best source of non-renewable energy in terms of greenhouse gas emission and therefore an opportunity to improve the sector's environmental impact; nevertheless, it presents risks related to possible short or prolonged interruptions to the supply due to any technical problems of the grid infrastructures or the supplier, with significant impact on business continuity of the production facilities: in particular for the Bolognana site, which uses methane to produce a large part of the electric energy consumed.

Electricity from the grid

The Bolognana factory has a 3 MW cogeneration system capable of meeting part of the factory's electric energy demand, returning a small part of it to the grid (in 2017, the quantity of energy released to the grid was 2,581 GJ, equal to 2% of the energy purchased).

The absolute values and contributions of the individual companies to the consolidated data on the consumption of electric energy from the grid, expressed in terms of percentage, are shown in the table below.

[24]The data is the sum of consumption measured (Bolognana, Sant'Antimo, Castelvecchio Pascoli and Melville) and estimated (Siena, offices and plasma collection centres).
[25]Discharges measured for Bolognana, Sant'Antimo, Castelvecchio Pascoli, Godollo and Melville; estimated for Siena, offices and plasma collection centres.

Consumption of electricity from the grid by company at 31.12.2017[26]		
Company	**GJ**	**%**
Kedrion S.p.A.	72,049	48%
Kedrion Biopharma Inc.	25,525	17%
KEDPLASMA LLC	15,120	10%
HUMAN BioPlazma Kft.	32,048	21%
KEDPLASMA GmbH	5,040	3%
Other	1,260	< 1%
TOTAL	**151,042**	**100%**

The breakdown of electricity consumption per geographic area is shown below:

Consumption of electric energy from the grid by geographic area at 31.12.2017		
Region	**GJ**	**%**
Italy	72,049	53%
USA	40,645	22%
Europe and Rest of the World	38,348	26%
TOTAL	**151,042**	**100%**

Fossil fuels

The absolute values and contributions of the individual companies to the consolidated data on the consumption of methane, expressed in terms of percentage, are shown in the following table:

Consumption of natural gas by company at 31.12.2017[27]		
Company	**GJ**	**%**
Kedrion S.p.A.	331,918[28]	79%
Kedrion Biopharma Inc.	32,522	8%
KEDPLASMA LLC	11,066	< 3%
HUMAN BioPlazma Kft.	37,631	9%
KEDPLASMA GmbH	3,689	< 1%
Other	922	< 1%
TOTAL	**417,748**	**100%**

[26]The data is the sum of consumption measured (Bolognana, Sant'Antimo, Castelvecchio Pascoli and Melville) and estimated (Siena, offices and plasma collection centres).
[27]The data is the sum of consumption measured (Bolognana, Sant'Antimo, Castelvecchio Pascoli and Melville) and estimated (Siena, offices and plasma collection centres).
[28]The data includes the natural gas for the cogeneration system at the Bolognana site.

The breakdown of natural gas consumption per geographic area is shown below:

Consumption of natural gas by geographic area at 31.12.2017

Region	GJ	%
Italy	331,918[29]	79%
USA	43,588	11%
Europe and Rest of the World	42,242	10%
TOTAL	**417,748**	**100%**

The following table summarises electricity, natural gas and gas oil consumption expressed in GJ at a global level for the 2016-2017 two-year period:

Energy balance 2016-2017 two-year period

Indicator (GJ)	2017	2016	Delta 2017/2016
Electricity from the grid	151,042	159,426	-5%
Natural gas	417,748	425,397	-2%
Gas oil	7,776	8,501	-9%
Total energy	**576,566**	**593,324**	**-3%**

The table shows a decrease in the consumption of electricity from the grid and of automotive gas oil and emergency gensets, and an increase in natural gas consumption. The total energy consumed has decreased by 3%.

DIRECT AND INDIRECT EMISSIONS

Kedrion calculates carbon footprint in order to identify the greenhouse gas emissions generated by its activities, considering the direct emissions coming from the consumption of natural gas and other fuels and by refrigerant gas losses (Scope I) and indirect ones coming from the consumption of electricity (Scope II).

The following table shows contributions to the total CO_2 equivalent emission (Scope I).

Carbon Footprint 2016-2017 two-year period – Scope I[30]

CO_2 equivalent (tons)	2017	2016	Delta 2017/2016
CO_{2e} from refrigerant gas losses (refilling)	22,062	7,562	192%
CO_{2e} from consumption of natural gas	23,737	24,172	-2%
CO_{2e} from consumption of gas oil	574	632	-9%
Total CO2e	**46,373**	**32,366**	**43%**

The increase in the total amount of CO_2e to which the refrigerant gas refilling due to significant losses in some facilities has greatly contributed and the damage of a pipe at the Bolognana factory (with a loss of around 1,000 kg of R404 equal to 4,000 tonnes of CO_2e) are noted.

[29] *The data includes the natural gas for the cogeneration system at the Bolognana site.*
[30] *Defra emission factor version 2017.*

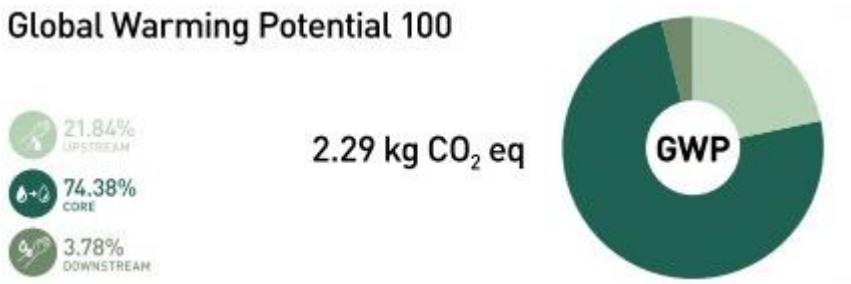
The following table shows the contributions to the total CO_2 equivalent emission (Scope II).

Carbon Footprint 2016-2017 two-year period – Scope II[31]

CO_{2e} (tons)	2017	2016	Delta 2017/2016
CO_{2e} from consumption of electric energy from the grid	16,447	18,358	-10%
Total CO2e	**16,447**	**18,358**	**-10%**

Kedrion has also extended the impact evaluation in terms of carbon footprint to indirect emissions (Scope III) coming from waste management, transport, business travel and water consumption for the Italian production sites, and in particular, for some product chains. For example, in 2017 it obtained EPD (Environmental Product Declaration) certification for the factor VIII (Emoclot 500 UI) product, published on the environdec.com site.

Below is a summary of the total emissions, resulting from the LCA, related to the year 2016 per individual product package.



WASTE PRODUCTION

The amount of waste from the production sites represents the prevalent quota of all waste produced by the Group. Administrative activities and collection centres contribute, as a matter of fact, in an insignificant way.

The waste – when not given to the municipally-owned companies as urban waste is – is managed according to the legislation of the country in which the production site is located, for its classification and packaging and its disposal.

The presence of obligations required by legislation or specific authorisations or voluntarily assumed obligate the company to pay strict attention in terms of classification, packaging, time and quantitative limitations defined by legislation and by any local regulations/authorisations.

The possibility of any interruptions to transport and disposal services related to incorrect classification or packaging, unavailability of suppliers (technical, authorising and contract problems) make waste management an extremely significant environmental aspect.

In addition to legislative compliance and business continuity, Kedrion's attention is turned towards the safety of people, who on various grounds can come into contact with the material (internal staff, operators in the waste sector and communities), and towards the environment in general; this leads the company to favour sustainable disposal methods (energy recovery or recycling material).

[31] *Defra emission factor version 2015.*

The total waste produced in 2017 amounts to 7,636 tonnes, of which 58% hazardous (or regulated) waste and 42% non-hazardous waste. The table shows the contribution to waste of the three significant geographical areas.

Waste balance by geographical area at 31.12.2017

Region	Non-hazardous waste (kg)	Hazardous waste (kg)	Total waste (kg)	Total waste (%)
Italy	3,057,598	1,017,327	4,074,925	53%
USA	18,065	261,000	279,065	4%
Europe	151,806	3,131,083	3,282,889	43%
TOTAL	**3,227,469**	**4,409,410**	**7,636,879**	**100%**

In Italy, the hazardous waste data is strongly influenced by the extraordinary disposal by road of industrial wastewater normally transferred to the public utilities, due to an interruption of the disposal facility, which occurred in 2017. Below are the 2017 values compared with the data from 2016, which show a significant increase of non-hazardous waste including the disposal of industrial wastewater.

Waste balance 2016-2017 two-year period

Type (kg)	2017	2016	Delta 2017/2016
Non-hazardous waste	3,227,469	1,528,691	111%
Hazardous waste	4,409,410	4,641,844	-5%
TOTAL WASTE PRODUCED	**7,636,879**	**6,170,535**	**24%**

The two tables that follow show the adjusted data from the disposal by road of industrial waste necessary in 2016 (596,890 kg) and in 2017 (2,453,940 kg), data which shows a general decrease in waste produced.

Waste balance 2016-2017 two-year period net of waste disposed of by road

Type (kg)	2017	2016	Delta 2017/2016
Non-hazardous waste (no wastewater)	773,529	931,801	-17%
Hazardous waste	4,409,410	4,641,844	-5%
TOTAL WASTE PRODUCED	**5,182,939**	**5,573,645**	**-7%**

Amount of waste separated by type of disposal at 31.12.2017 net of wastewater disposed of by road

Region	Waste destined for recovery/waste-to-energy (kg)	Waste destined for incineration/landfill (kg)
Italy	478,588	1,142,397
USA	0	279,065
Europe	2,874,549	408,340
TOTAL	**3,353,137**	**1,829,802**
Impact on total %	**65%**	**35%**

Amount of non-hazardous waste send to recovery at 31.12.2017 net of wastewater disposed of by road	
Region	**Kg**
Italy	430,177
USA	0
Europe	16,183
TOTAL	**446,360**
% of total non-hazardous waste	**58%**

Amount of hazardous waste send to recovery at 31.12.2017	
Region	**Kg**
Italy	794,878
USA	0
Europe	2,858,366
TOTAL	**3,653,244**
% of total hazardous waste	**83%**

The percentage related to non-hazardous waste for recovery is net of the wastewater disposed of by road due to an interruption of the consortium purifying service in the Bolognana facility.

4.14.8. "ANTI-CORRUPTION" AREA

In coherence with its own founding values and what occurs in every area of its own activity, Kedrion strictly supports and pursues legislative compliance, including that pertaining to preventing and countering active and passive corruption.

In consideration of the national nature of positive legislation to counter corruption, Kedrion does not directly monitor the topic through the Parent Company nor through a single Group policy, but through structures, practised policies and processes based on the main legal entities in Italy and abroad; for legal entities of lesser significance, control is guaranteed by the fact that these are led by Kedrion S.p.A. managers subject to the anti-corruption practices of the Parent Company (described below).

The legal and compliance area of the Group nevertheless promotes the coordination and circulation of good practices on this topic. In this sense, some activities are common to all companies of the Group. In particular, included among these:

- The adoption of a Code of Ethical Conduct;
- Ethical auditing, control and compliance activities;
- Training activities for new hires, annual and ad hoc;
- Open channels of communication (mail boxes, dedicated mail, reserved meetings, etc.);
- Respect for national and supranational legislation on sponsors, contributions, funding, etc.

During 2017, within the entire scope of company consolidation, no confirmed episodes of corruption were reported.

The following subsections describe the organisation and distinctive processes which were adopted in the anti-corruption area by the main operating companies of the Group.

KEDRION S.P.A.

Kedrion S.p.A. combats corruption in its every form, in the widest context of the Management and Control Organisation Model pursuant to Art. 6 of Legislative Decree 231/2001 (hereafter also "Model 231") which it adopted, beginning in 2004, in the aim of preventing the risk of commission of offences provided for by the same Decree, also including offences of corruption in its every form in relations with public administration and between private parties and therefore also along the supply chain.

The organisational model adopted by Kedrion S.p.A. to prevent and counter active and passive corruption includes, in addition to the elements common to all companies of the Group, the following elements:

- The company code of conducting activities of scientific drug information is certified by an accredited third party as compliant with the specific guidelines issued by Farmindustria;
- The Supervisory Body pursuant to Legislative Decree 231/2001, Art. 6 let. b, formed by nomination of the Board of Directors;
- Risk Mapping with regard to the offences provided for by Legislative Decree 231/2001, including offences of corruption in its every form;
- Supervisory Board Information Report for the Company meeting (Board of Directors, Board of Statutory Auditors).

For matters concerning the risks associated with the topic, Art. 6 of Legislative Decree n. 231/2001 provides for an analysis of the activities carried out in the Company for the purpose of identifying those that, in accordance with the Decree, can be considered at risk of unlawful acts.

Kedrion S.p.A. updates the risk mapping, or rather the mapping of the Company areas hypothetically and theoretically exposed to "crime risk", including the risk of the offence of corruption in all its forms.

The potential risks pertaining to the offences provided for by Legislative Decree 231/2001 emerged from the risk mapping are mainly those typical of the pharmaceutical sector and have given rise to acceptable residual risks, or non-relevant ones, consequent to the evaluation of the control system overseeing the risks themselves.

KEDRION BIOPHARMA INC.

Kedrion Biopharma Inc. (KBI) mainly sells products to American clients, with some exceptions, and the fight against corruption on the national front has maximum priority in the KBI Compliance Programme, which nevertheless also remains attentive to international clients (FCPA - Foreign Corruption Practices Act).

The KBI Compliance Director is charged with maintaining the written guidelines, s/he has the task of carrying out training courses on topics related to the fight against corruption and implementing other elements of the Compliance Programme. The Compliance Director reports to the KBI Board of Directors and functionally, to the KBI General Director.

The risks related to the topic are relevant. The USA's legislative context is very active in carrying out anti-corruption investigations and penal actions for American clients, for which it provides numerous laws, such as the Anti-Kickback Statute, the False Claims Act, and the Foreign Corrupt Practice Act (FCPA). This legislation provides for severe federal punishments both civil and penal. Furthermore, the individual states have their own laws and are active in pursuing violations.

HUMAN BIOPLAZMA KFT.

HUMAN BioPlazma Kft., also including the KEDPLASMA Hungary operating unit, operates in Hungary in respect of the judicial and legislative framework applicable to its activities.
With regard to the governance and organisational structure of the Company, the chief executive officers (appointed by Kedrion S.p.A. as a single shareholder, as directors) are civilly and penally responsible for the legitimate activity of the Company, and in this sense also for investigations and suitable responses in relation to reports of suspected violations of the law, internal Company policies, resolutions and instructions of Kedrion S.p.A.
A Supervisory Board also exists to ensure that the chief executive officers carry out their tasks and duties in a legitimate manner. The Company's Memorandum of Association in force includes various thresholds and limitations for the chief executive officers in relation to some actions for which they must first obtain the written approval/consent of the single shareholder or the Supervisory Board.
The policies and processes adopted to combat any active or passive corruption are similar to those adopted by the other companies of the Group; it is noted that compliance on the topic of sponsors is ensured by meeting the code of the European Federation of Pharmaceutical Industries and Associations (EFPIA) and the code of communication and pharmaceutical ethics of the Association of Hungarian Pharmaceutical Manufacturers (Magyarországi Gyógyszergyártók Országos Szövetsége (MAGYOSZ)).

KEDPLASMA GMBH

KEDPLASMA GmbH is divided into two organisational units: Plasma and Plasma Derivatives. While the Plasma unit sells products mostly within the Kedrion Group and therefore is only exposed in a limited manner to third-party clients on the market, the Plasma Derivatives unit is exposed to third-party clients.
The Plasma Derivatives unit carries out consultation, training and active monitoring of Company activities relating to anti-corruption. This unit mainly sells to German clients, and the fight against corruption on the national front constitutes its maximum priority.
The Company operates in Germany (with supply of plasma from other European countries like Poland, Austria and the Czech Republic, and of plasma derivatives directly from Kedrion S.p.A. in Italy) in respect of the legal and regulatory framework applicable to its activities.
As in the case of HUMAN BioPlazma, the chief executive officers (appointed by Kedrion S.p.A. as a single shareholder, as directors) are responsible and a Supervisory Board exists.
The policies and processes adopted to combat any active or passive corruption are similar to those adopted by the other companies of the Group; it is noted that compliance on the topic of sponsors is ensured by meeting the code of the European Federation of Pharmaceutical Industries and Associations (EFPIA) and the code of communication and pharmaceutical ethics of the FSA "Freiwillige Selbstkontrolle für die Arzneimittelindustrie e.V.", the AKG "Arzneimittel und Kooperation im Gesundheitswesen e.V." and other accredited bodies.
The risks related to the topic are linked to the fact that the German regulatory context is very active in the field of conducting anti-corruption investigations and penal actions.

4.14.9. "HUMAN RIGHTS" AREA

The Kedrion Group is engaged in the creation of a working environment dominated by responsibility, trust and mutual respect, development of personality and diversity among individuals; Kedrion considers it fundamental that the relationships between colleagues, at every level of the organisation, are made with loyalty and correctness in mutual respect of the rights and freedom of people; it considers it fundamental that all employees and collaborators of the Company contribute to maintaining a climate of mutual respect of dignity, honour and reputation;

it only approves behaviours coherent with the principle of respect for a person by whoever enacts them, towards whoever they are aimed and independently of the reasons; it considers it fundamental that managers and supervisors respond promptly and professionally to any doubt or problem raised by collaborators and ask for assistance if necessary; it considers it fundamental that managers and supervisors systematically adopt exemplary behaviour as an example to its own collaborators.
The Company prevents and opposes the employment of minors, forced labour, unjust disciplinary procedures, physical or mental coercion or abuse towards a person.
The Company prevents and counters all forms of discrimination of workers for nationality, race, religion, social class, gender, sexual orientation, political and trade union opinion, conditions of health, physical limitations, age, prior family responsibilities, marital status or for any other condition that may give rise to discrimination.
Conversely, the Company proposes to offer equal opportunities to all employees in career development, leave from work and retirement, respecting the fundamental principle of equality.
During 2017, within the entire scope of Company consolidation, no episodes of discrimination or violation of human rights were reported.
As in the case of the Anti-corruption Area, the majority of the activities of the various companies of the Group in the Human Rights and Non-Discrimination Area are similar. These include the Code of Ethical Conduct, participation in Global Compact, personalised training activities, open lines of communication with employees.
On the other hand, some activities are different from the main operating companies of the Group, as briefly explained in the following sections.

KEDRION S.P.A.

The area is monitored by tools common to the Group and through continuous relation with the Supervisory Board and Ethics Committee, as well as through the Social Responsibility System inspired by the voluntary international standard SA8000, which concerns ethics in relationships with workers and along the entire supply chain.
Kedrion S.p.A. creates and maintains a specific Risk Analysis with regard to the principles of social responsibility standard SA8000, as required by the standard itself. The principles and methods for carrying out Risk Analysis are described and regulated in the SA8000 corporate manual.
Risk Analysis has shown no critical situations under the various profiles of compliance, ethics and law relating to the company-workers and company-supply chain relationships; In particular, none of the reports submitted by workers to the SA8000 Manager amounts to violations of human and workers' rights; specifically, none of these reports amounts to violations of law, applicable regulations, behaviours and/or practices not in line with the requirements of the Code of Ethical Conduct and with the SA8000 System adopted by the Company.

KEDRION BIOPHARMA INC.

Kedrion Biopharma Inc. (KBI) respects all USA laws on the fight against discrimination and has a control system to prevent and identify such conduct.
USA laws and those of the individual states are very severe towards cases of violation of equal treatment and protection of human rights, therefore, KBI is very attentive and avoids the risk of incurring sanctions and reputation damage.

HUMAN BIOPLAZMA KFT.

The Company, which also includes the KEDPLASMA Hungary business unit, operates in Hungary in respect of the judicial and legislative framework applicable to its activities.

In regard to the approach adopted by the Company on human rights and discrimination, particular attention is paid to this topic, among others, given that in Hungary the prohibition on discrimination and the principle of equal treatment are well governed in several laws, e.g. the Fundamental Law (Constitution), the Civil Code (Law N. V of 2013), Law N, CXXV of 2003 on equal treatment and promotion of equal opportunities (acknowledged in Hungarian legislation and thereby conciliated with the respective EU Directives, such as, for example 2000/78, 2000/43 and 2004/113), the Code of Employment (Law N. I of 2012), etc. Therefore, the Company must surely be compliant with the requirements of the law as it carries out activities for this reason also.
With regard to the plasma collection activity carried out by the Company (KEDPLASMA Hungary Operating Unit), for the purposes of safety and quality assurance, it could happen that the company is forced to exclude some candidates/donors from donating plasma for certain reasons. To avoid cases of (prejudicial) discrimination, from January 2018 the Company (KEDPLASMA Hungary Business Unit), also as a supplier of healthcare services, issued an amendment to the policy (legislation and regulations) applicable to persons who frequent the plasma collection centres, including candidates/donors and even company employees. On the basis of this amendment, the intention to carry out tasks in respect of the requirements of equal treatment and the prohibition of discrimination towards employees was explicitly formulated. Over the course of 2017, there were no cases/episodes connected to possible/suspected discrimination.
Constant and accurate compliance and monitoring of working relationships is carried out to oppose and prevent any form of discrimination, from recruitment to the end of the working relationship, conducted and controlled by the human resources department of the Company.

KEDPLASMA GMBH

The company KEDPLASMA GmbH – as regards the question of human rights, not discrimination and equal treatment – is recognised in the Parent Company values listed above.
Specifically, the fundamental legislative point of reference in this context is the German federal law on equal treatment, Allgemeines Gleichbehandlungsgesetz (AGG), of 14 August 2006, which adopted the European Directives passed in the years 2000-2004: Guidelines 2000/78/EG on employment, anti-racism guidelines 2000/43/EG, guidelines 2002/73/EG and 2004/113/EG on equal treatment of men and women.
The AGG has the aim of preventing and eliminating discrimination due to race, ethnic origin, sex, religion or ideology, disability, age or sexual identity.
KEDPLASMA conducts constant and accurate compliance with this legislative requirement, from start to finish of the working relationship with employees and for the entire duration of the employment contract itself. In particular, under the coordination of the human resources department, KEDPLASMA puts in place employee recruitment policies, benefits planning policies and contractual conditions compliant with the legal obligations represented by the AGG. At the same time and with the same methods, extreme attention is paid to any occurrences of behaviour that are not compliant with the requirements in force.

4.14.10. METHODOLOGICAL NOTE

BOUNDARY AND REPORTING PROCESS

The DNF includes in its reporting boundary the Parent Company and the subsidiary companies consolidated with the line-by-line method. Any exceptions are indicated in the text; in the case in which some data are not available, the text highlights this in a clear and transparent way.
The working plan followed to prepare the DNF 2017 followed the below phases and time-frames, coherent with Legislative Decree 254/16 and aligned to the financial reporting process and the

SOP (Standard Operating Procedure) on non-financial communications prepared and approved by the Kedrion Group:

1. Assignment of the task by the President and Chief Executive Officer of Kedrion S.p.A., to the Group Administration department (start of November 2017);
2. Identify the external consultant to support the activity (mid-November 2017);
3. Choose the type of DNF (consolidated), its location in the management report, its relationship with the GRI Standards and the chosen methodology (GRI Referenced) (end of November 2017);
4. Contact the consultant and the Group Administration department with the data owners and the representatives of each department and legal entity of the Group concerned (before end of November 2017);
5. Training activity and information on the DNF (before mid-December 2017);
6. Development and approval, by the departments involved and the President and Chief Executive Officer of Kedrion S.p.A., of the Materiality Analysis (mid-January 2018);
7. Collection of data and their validation alongside the data owners and department representatives (before mid-February 2018);
8. Write the DNF draft and submit it to the data owners (end of February 2018);
9. Approval of the DNF draft by the data owners and submit the document to the Group Administration department (before mid-March 2018);
10. Send the DNF proposal to the Company Secretary with a view to its approval in the Board of Directors Meeting on 29 March (23 March 2018).

CORRELATION TABLE

Kedrion material topics	GRI Standard	Boundary		
		Internal	External	Limitations
Managerial development	404: Training and Education	ü		
Employer branding	102-8: General disclosure	ü		
	401: Employment	ü		
Company well-being	401: Employment	ü		
Occupational health and safety	403: Occupational Health and Safety	ü		
Relationship with local communities	413: Local Communities	ü		
Scientific research activity	413: Local Communities	ü		
	419: Socio-economic Compliance	ü		
Water consumption and water cycle	303: Water	ü		
	306: Effluents and Waste	ü		
Renewable and non-renewable energy consumption	302: Energy	ü		
Direct and indirect emissions	305: Emissions	ü		
Waste production	306: Effluents and Waste	ü		
Human rights	406: Non-discrimination	ü		
Anti-corruption	205: Anti-corruption	ü	ü	Reporting not extended to the external boundary (suppliers and other partners)

METHODOLOGIES FOR CALCULATING THE INDICATORS

Health and Safety indicators

The indicators used are the Total Injury Rate (TIR) and the Lost Work Days Rate (LWR). The calculation formulae and variables used were the following:

TIR = number of events x 200,000/hours worked***
*LWR = number of days lost**** x 200,000/hours worked*

***Number of injuries (recordable injuries) that led to absence from work, restrictions to work or medical treatment, including events of biological risk (first aid cases and accidents on way to/from work are excluded).*
***Hours effectively worked (where a measurement system is not present, these are estimated according to the work schedule).*
****Given calendar days (the day of the event and the day of return to work are excluded).*

Occupational diseases data is reported in the text communicating the only case that occurred in 2017.

Environmental indicators

The consumption of electricity from the grid, methane gas and gas oil, measured by reading on-site counters or telemetries, is transformed into GJ using conversion factors available online:

- Coefficient from therms to scm of natural gas 1 scm = 0.3734 therms (SNAM converter)
- Gas oil and natural gas (fuel): conversion factors from Defra tables 2017 version
  - Consumption of natural gas: scm x 36.8877 / 1000 = GJ
  - Consumption of gas oil: tonne x 42.93 = GJ

To calculate the equivalent emissions of CO_2, the references are those reported below:

- Scope I (Defra 2017 version)
  Natural gas: scm x 2.096 = kg CO_{2e}
  Gas oil: tonne x 3,190.29 = kg CO_{2e}
  GWP refrigerant gases:
  R22: kg x 1810 = kg CO_{2e}
  R404A: kg x 3922 = kg CO_{2e}
  R407C: kg x 1774 = kg CO_{2e}
  R410A: kg x 2088 = kg CO_{2e}
  R507: kg x 3985 = kg CO_{2e}
  R134A: kg x 1430 = kg CO_{2e}
  ISCEON: kg x 3805 = kg CO_{2e}
- Scope II (Defra 2015 version)
  Electricity:
  kWh x 0.39899 = kg CO_{2e} (Italy)
  kWh x 0.49845 = kg CO_{2e} (USA)
  kWh x 0.47182 = kg CO_{2e} (Germany)
  kWh x 0.31829 = kg CO_{2e} (Hungary)

GRI CONTENT INDEX

GRI Standard	Disclosure	Paragraph	Omission
GRI 101: Foundation 2016			
General Disclosures			
GRI 102: General Disclosures 2016	**Organisational profile**		
	102-8 Information on employees and other workers	4.14.5	
	Reporting practice		
	102-46 Defining report content and topic Boundaries	4.14.2 4.14.3	
	102-47 List of material topics	4.14.23	
	102-55 GRI content index	4.14.10	
Material Topics			
GRI 200 Economic Standard Series			
Anti-corruption			
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its Boundary	4.14.8 4.14.3	
	103-2 The management approach and its components	4.14.8	
	103-3 Evaluation of the management approach	4.14.8	
GRI 205: Anti-corruption 2016	205-3 Confirmed incidents of corruption and actions taken	4.14.8	
GRI 300 Environmental Standards Series			
Energy			
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its Boundary	4.14.7 4.14.3	
	103-2 The management approach and its components	4.14.7	
	103-3 Evaluation of the management approach	4.14.7	
GRI 302: Energy 2016	302-1 Energy consumption within the organisation	4.14.7 - Consumption of renewable and non-renewable energy	
Water			
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its Boundary	4.14.7 4.14.3	
	103-2 The management approach and its components	4.14.7	
	103-3 Evaluation of the management approach	4.14.7	
GRI 303: Water 2016	303-1 Water withdrawal by source	4.14.7 – Water consumption and water cycle	
Emissions			

GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its Boundary	4.14.7 4.14.3	
	103-2 The management approach and its components	4.14.7	
	103-3 Evaluation of the management approach	4.14.7	
GRI 305: Emissions 2016	305-1 Direct (Scope 1) GHG emissions	4.14.7 – Direct and indirect emissions	
Effluents and Waste			
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its Boundary	4.14.7 4.14.3	
	103-2 The management approach and its components	4.14.7	
	103-3 Evaluation of the management approach	4.14.7	
GRI 306: Effluents and Waste 2016	306-1 Water discharge by quality and destination	4.14.7 – Water consumption and water cycle	
	306-2 Waste by type and disposal method	4.14.7 – Waste production	
GRI 400 Social Standard Series			
Employment			
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its Boundary	4.14.5 4.14.3	
	103-2 The management approach and its components	4.14.5	
	103-3 Evaluation of the management approach	4.14.5	
GRI 401: Employment 2016	401-1 New employee hires and employee turnover	4.14.5	*Some information required by the indicator is not currently available. For the coming years, Kedrion is committed to further structuring the data collection process in such a way so as to cover the GRI Disclosure requirements*
	401-2 Benefits provided to full-time employees that are not provided to temporary or part-time employees	4.14.5 – Managerial Development	
Occupational Health and Safety			
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its Boundary	4.14.5 4.14.3	
	103-2 The management approach and its components	4.14.5	
	103-3 Evaluation of the management approach	4.14.5	
GRI 403: Occupational Health and Safety 2016	403-2 Types of injury and rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities	4.14.5 – Occupational health and Safety	*Some information required by the indicator is not currently available. For the coming years, Kedrion is committed to further structuring the data collection process in such a way so as to cover the GRI Disclosure requirements*

Training and Education			
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its Boundary	4.14.5 4.14.3	
	103-2 The management approach and its components	4.14.5	
	103-3 Evaluation of the management approach	4.14.5	
	404-3 Percentage of employees receiving regular performance and career development reviews	4.14.5 – Managerial Development	
Non-discrimination			
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its Boundary	4.14.9 4.14.3	
	103-2 The management approach and its components	4.14.9	
	103-3 Evaluation of the management approach	4.14.9	
GRI 406: Non-discrimination 2016	406-1 Incidents of discrimination and corrective actions taken	4.14.9	
Local Communities			
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its Boundary	4.14.6 4.14.3	
	103-2 The management approach and its components	4.14.6	
	103-3 Evaluation of the management approach	4.14.6	
GRI 413: Local Communities 2016	413-1 Operations with local community engagement, impact assessments, and development programs	4.14.6	*Some information required by the indicator is not currently available. For the coming years, Kedrion is committed to further structuring the data collection process in such a way so as to cover the GRI Disclosure requirements*
Socio-economic compliance			
GRI 103: Management Approach 2016	103-1 Explanation of the material topic and its Boundary	4.14.6 4.14.3	
	103-2 The management approach and its components	4.14.6	
	103-3 Evaluation of the management approach	4.14.6	
GRI 419: Socio-economic compliance 2016	419-1 Non-compliance with laws and regulations in the social and economic area	4.14.6	

Castelvecchio Pascoli, 29 March 2018

On behalf of the Board of Directors
The Chairman
Paolo Marcucci

5. FINANCIAL STATEMENTS

KEDRION Group
Registered office in LOC. AI CONTI - 55051 CASTELVECCHIO PASCOLI (LU)
Fully paid-up share capital Euro 55,186,279

5.1. CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(In thousands of Euro)	NOTES	31.12.2017	31.12.2016
NON-CURRENT ASSETS			
Property, plant and equipment	6.4.1	251,215	210,012
Investment property	6.4.2	2,386	2,445
Goodwill	6.4.3	219,318	218,979
Definite life intangible assets	6.4.4	62,034	58,330
Investments in associates	6.4.5	331	0
Investments in other companies	6.4.6	2,095	2,382
Other non-current financial assets	6.4.7	10,856	6,539
Deferred tax assets	6.4.8	6,089	8,708
Other non-current assets	6.4.9	655	1,159
TOTAL NON-CURRENT ASSETS		**554,979**	**508,554**
CURRENT ASSETS			
Inventories	6.4.10	280,180	280,880
Trade receivables	6.4.11	127,969	136,056
Current tax receivables	6.4.12	7,237	9,248
Other current assets	6.4.13	36,829	30,748
Other current financial assets	6.4.14	564	111
Cash and cash equivalents	6.4.15	104,522	66,510
TOTAL CURRENT ASSETS		**557,301**	**523,553**
Assets available for sale	6.4.16	0	12,468
TOTAL ASSETS		**1,112,280**	**1,044,575**

(In thousands of Euro)	NOTES	31.12.2017	31.12.2016
SHAREHOLDERS' EQUITY			
SHAREHOLDERS' EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT			
Share capital	6.4.17	55,186	55,186
Reserves	6.4.17	307,784	325,568
Net income attributable to Equity holders of the Parent	6.4.17	5,188	10,722
TOTAL SHAREHOLDERS' EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT		**368,158**	**391,476**
EQUITY ATTRIBUTABLE TO NON-CONTROLLING INTERESTS			
Capital and reserves attributable to non-controlling interests	6.4.17	(153)	1,481
Net Income attributable to non-controlling interests	6.4.17	1,003	1,036
TOTAL EQUITY ATTRIBUTABLE TO NON-CONTROLLING INTERESTS		**850**	**2,517**
TOTAL SHAREHOLDERS' EQUITY		**369,008**	**393,993**
NON-CURRENT LIABILITIES			
Medium/long-term debt	6.4.18	511,932	355,557
Financial liabilities	6.4.19	346	801
Provisions for risks and charges	6.4.20	959	652
Liabilities for employee benefits	6.4.21	6,738	5,157
Other non-current liabilities	6.4.22	7,834	6,706
TOTAL NON-CURRENT LIABILITIES		**527,809**	**368,873**
CURRENT LIABILITIES			
Financial liabilities	6.4.23	41,248	37,031
Current portion of medium/long-term debt	6.4.24	7,036	18,856
Provisions for risks and charges	6.4.25	598	3,487
Trade payables	6.4.26	122,522	162,586
Current tax payables	6.4.27	2,787	2,027
Other current liabilities	6.4.28	41,272	57,722
TOTALE CURRENT LIABILITIES		**215,463**	**281,709**
TOTAL LIABILITIES		**743,272**	**650,582**
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		**1,112,280**	**1,044,575**

KEDRION Group
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5.2. STATEMENT OF PROFIT OR LOSS

(in thousands of Euro)	NOTES	31.12.2017	31.12.2016
Revenues from sales and services	6.5.1	602,501	659,349
Cost of sales	6.5.2	427,831	469,927
GROSS MARGIN		**174,670**	**189,422**
Other income	6.5.3	52,887	5,827
General and administrative expenses	6.5.4	80,757	83.,085
Sales and marketing expenses	6.5.5	51,785	50,836
Research and development costs	6.5.6	35,045	33,089
Other operating costs	6.5.7	8,325	8,447
OPERATING INCOME		**51,645**	**19,792**
Financial expenses	6.5.8	43,750	20,560
Financial income	6.5.9	1,953	11,296
INCOME BEFORE TAXES		**9,848**	**10,528**
Income taxes	6.5.10	3,657	(1,230)
NET INCOME/(LOSS) FOR THE PERIOD		**6,191**	**11,758**
Of which:			
Net Income attributable to Equity holders of the Parent		5,188	10,722
Net Income attributable to non-controlling interests		1,003	1,036

With respect to the non-recurring components of income, see Note 6.5.11 included in the explanatory notes to the consolidated financial statements.

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5.3. STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

(In thousands of Euro)	NOTES	31.12.2017	31.12.2016
NET INCOME FOR THE PERIOD		**6,191**	**11,758**
OTHER COMPREHENSIVE INCOME/(LOSS)			
Items of other comprehensive income that will subsequently be reclassified to profit or loss net of taxes::			
Net Income/(losses) on cash flow hedges		554	(560)
Income taxes		(133)	105
Exchange differences on translation of foreign operations	6.4.17	(2,050)	4,536
Income taxes		0	0
Total items of other comprehensive income that will subsequently be reclassified to profit or loss net of taxes		**(25,629)**	**4,081**
Items of other comprehensive income that will not subsequently be reclassified to profit or loss:			
Net actuarial gains (losses) from defined benefit plans	6.4.21	9	(194)
Income taxes		(2)	42
Total items of other comprehensive income that will not subsequently be reclassified to profit or loss (net of taxes)		**7**	**(152)**
TOTAL ITEMS OF OTHER COMPREHENSIVE INCOME (NET OF TAXES)		**(25.622)**	**3.929**
TOTAL COMPREHENSIVE INCOME/(LOSS) (NET OF TAXES)		**(19.431)**	**15.687**
Attributable to:			
Equity holders of the Parent		(20,118)	14,651
Non-controlling interests	6.4.17	687	1,036

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5.4. STATEMENT OF CHANGES IN CONSOLIDATED SHAREHOLDERS' EQUITY

(in thousands of Euro)	Share capital	Legal reserve	Share premium reserve	Other reserves	Cash flow hedge reserve	Foreign currency translation reserve	TFR (employee severance indemnity) reserve (IAS 19)	Income for the period	Total Shareholders' Equity attributable to Equity holders of the Parent	Total Equity attributable to non-controlling interests	Total Shareholders' Equity
Notes	**6.4.17**	**6.4.17**	**6.4.17**	**6.4.17**	**6.4.17**	**6.4.17**	**6.4.21**				
BALANCES AS AT 01.01.2016	**55,186**	**6,419**	**18,807**	**258,599**	**(617)**	**13,586**	**(585)**	**36,328**	**387,723**	**2,651**	**390,374**
Allocation of profit for the year	0	653	0	24,777	0	0	0	(25,430)	**0**	0	**0**
Distribution of dividends	0	0	0	0	0	0	0	(10,898)	**(10,898)**	(1,170)	**(12,068)**
Exchange differences	0	0	0	0	0	4,536	0	4,536	**4,536**	0	**4,536**
Comprehensive income for the year	0	0	0	0	(455)	0	(152)	10,722	**10,115**	1,036	**11,151**
BALANCES AS AT 31.12.2016	**55,186**	**7,072**	**18,807**	**283,376**	**(1,072)**	**18,122**	**(737)**	**10,722**	**391,476**	**2,517**	**393,993**

(in thousands of Euro)	Share capital	Legal reserve	Share premium reserve	Other reserves	Cash flow hedge reserve	Foreign currency translation reserve	TFR (employee severance indemnity) reserve (IAS 19)	Income for the period	Total Shareholders' Equity attributable to Equity holders of the Parent	Total Equity attributable to non-controlling interests	Total Shareholders' Equity
BALANCES AS AT 01.01.2017	**55,186**	**7,072**	**18,807**	**283,376**	**(1,072)**	**18,122**	**(737)**	**10,722**	**391,476**	**2,517**	**393,993**
Allocation of profit for the year	0	416	0	7,106	0	0	0	(7,522)	**0**	0	**0**
Distribution of dividends	0	0	0	0	0	0	0	(3,200)	**(3,200)**	(2,354)	**(5,554)**
Exchange differences	0	0	0	0	0	(25,734)	0	0	**(25,734)**	(316)	**(26,050)**
Comprehensive income for the year	0	0	0	0	421	0	7	5,188	**5,616**	1,003	**6,619**
BALANCES AS AT 31.12.2017	**55,186**	**7,488**	**18,807**	**290,482**	**(651)**	**(7,612)**	**(730)**	**5,188**	**368,158**	**850**	**369,008**

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5.5. CONSOLIDATED STATEMENT OF CASH FLOW

(In thousands of Euro)	NOTES	31.12.2017	31.12.2016
INCOME BEFORE TAXES		**9,848**	**10,528**
Adjustments to reconcile net profit with cash flow generated / (absorbed) by operating activities			
Capital gain from sale of plasma collection centres		(29,602)	
Amortization and depreciation		25,895	23,922
Financial expenses	6.5.8	43,750	20,560
Financial income	6.5.9	(1,953)	(11,296)
Provisions for employee benefits	6.4.21	1,714	724
Payment of employee benefits	6.4.21	(183)	(252)
Net change in provisions for risks and charges	6.4.20 6.4.25	(2,582)	3,665
Net change in other non-current assets and liabilities	6.4.22 6.4.9	1.632	193
Net changes in operating assets and liabilities			
Trade receivables	6.4.11	6,271	(12,074)
Inventories	6.4.10	226	(3,760)
Trade payables	6.4.26	(40,977)	48,593
Other current assets and liabilities		(657)	(2,765)
Cash flow from sale of plasma collection centres	6.4.28	28,314	14,230
Other cash flow from operating activities			
Income taxes paid		(6,160)	(11,853)
NET CASH FLOW GENERATED BY OPERATING ACTIVITIES (A)		**35,536**	**80,414**
Investments in tangible assets	6.4.1	(65,111)	(46,868)
Disposal of tangible assets	6.4.1	184	81
Purchase of plasma collection centres		(15,009)	0
Investments in associates/others		(331)	0
Investments in intangible assets	6.4.4	(11,172)	(18,359)
Disposal of intangible assets	6.4.4	89	16
NET CASH FLOW ABSORBED BY INVESTMENT ACTIVITIES (B)		**(91,350)**	**(65,130)**

(In thousands of Euro)	NOTES	31.12.2017	31.12.2016
Distribution of dividends	6.4.17	(8,724)	(6,619)
Bond repurchase		(91,080)	0
New bond issuance		342,448	0
New medium/long-term debt	6.4.18	173,343	30,000
Repayment of medium/long-term debt	6.4.18	(285,477)	(15,721)
Interest collected	6.5.9	529	367
Interest paid		(20,258)	(14,882)
Net change in non-current financial assets	6.4.7 6.4.18	(3,912)	(1,165)
Net change in short-term financial assets and liabilities		(13,104)	22
NET CASH FLOW GENERATED/(ABSORBED) BY FINANCING ACTIVITIES (C)		**93,766**	**(7,998)**
Net cash flow generated by operating activities (A)		35,536	80,414
Net cash flow absorbed by investment activities (B)		(91,350)	(65,130)
Net cash flow generated/(absorbed) by financing activities (C)		93,766	(7,998)
TOTAL NET CASH FLOW D=(A+B+C)		**37,952**	**7,287**
Cash and cash equivalents at the beginning of the period (E)		66,508	59,208
Net effect of conversion of foreign currencies on cash and cash equivalents (F)		62	14
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD H=(D+E+F+G)		**104,522**	**66,508**
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD:			
Cash and Cash equivalents:		66,510	59,243
Current account overdrafts and cash equivalents payable on demand		(2)	(35)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD		**66,508**	**59,208**
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD:			
Cash and cash equivalents	6.4.15	66,510	59,243
Current account overdrafts and cash equivalents payable on demand	6.4.23	(2)	(35)
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD:		**66,508**	**59,208**

Castelvecchio Pascoli, 29 March 2018

On behalf of the Board of Directors
The Chairman
Paolo Marcucci

6. EXPLANATORY NOTES

6.1. INTRODUCTION

Kedrion S.p.A. is a joint-stock company incorporated and domiciled in Italy, and together with its subsidiaries ("Kedrion Group") carries out activity of production and distribution of biological drugs derived from the process of industrial plasma fractionation. In addition, it also markets synthetic pharmaceutical products and implements operations related to the collection and sale of plasma in foreign markets as well as other activities, such as the transfer of technology relating to the production of plasma derivatives. Further information on the activities performed by the Group can be found in the Report on Operations.

In addition to Kedrion S.p.A., the consolidated financial statements of Kedrion as at 31 December 2017, prepared by the directors of the Parent Company, include the following companies:

- The US subsidiary Kedrion Biopharma Inc. (formerly Kedrion Melville Inc.), 100% owned by Kedrion;
- The indirect US subsidiary KEDPLASMA LLC (formerly ADVANCED BIOSERVICES LLC), 100% owned by Kedrion Biopharma Inc.;
- The Austrian subsidiary Kedrion International GmbH, 100% owned by Kedrion;
- The Hungarian subsidiary HUMAN BioPlazma Kft., 100% owned by Kedrion;
- The indirect Hungarian subsidiary KEDPlasma Kft., 100% owned by HUMAN BioPlazma Kft.;
- The Swiss subsidiary Kedrion Swiss Sarl, 100% owned by Kedrion S.p.A;
- The German subsidiary KEDPLASMA GmbH, 100% owned by Kedrion S.p.A.;
- The Mexican subsidiary Kedrion Mexicana S.A. de C.V. (hereinafter referred to as Kedrion Mexicana), 60% owned by Kedrion S.p.A. The remaining 40% is owned by third parties;
- The Portuguese subsidiary KEDRION PORTUGAL - DISTRIBUIÇÃO DE PRODUTOS FARMACÊUTICOS UNIPESSOAL, LDA (hereinafter referred to as Kedrion Portugal), 100% owned by Kedrion;
- The Brazilian subsidiary Kedrion Brasil Distribudora de Produtos Hospitalares Ltda (hereinafter referred to as Kedrion Brasil), 51% owned by Kedrion S.p.A. The remaining 49% is owned by third parties;
- The Indian subsidiary Kedrion Biopharma India Private Limited, 60% owned by Kedrion S.p.A., 20% owned by HUMAN BioPlazma Kft. and the remaining 20% by Kedrion Biopharma Inc.;
- The Turskish subsidiary Kedrion Betaphar Biyofarmasötik İlaç Sanayi ve Ticaret Anonim Şirketi (hereinafter referred to as Kedrion Betaphar), 60% owned by Kedrion S.p.A. The remaining 40% is owned by third parties;
- The subsidiary KEDRION DE COLOMBIA S.A.S., 100% owned by Kedrion.

The Parent Company Kedrion S.p.A. is the issuer of two bonds listed on the Irish Stock Exchange. The first of the two bonds was issued in 2014 for an initial amount of Euro 300,000 thousand and it is still outstanding for a residual value of Euro 58,704 thousand. The bond has a nominal interest rate of 4.625% and expires in April 2019.
On 12 July 2017, the Parent Company issued a second senior, unsecured, non-convertible 3% coupon bond of Euro 350 million, with an issue price set at 99.43 (below the par) and 5-year

maturity. In the context of this new issue, a total of Euro 91,080 thousand of the bonds issued in 2014 were repurchased.
As a result of these listed bonds, Kedrion has become a Public Interest Entity according to the definition set in art. 16 of Legislative Decree 39/2010.

The 69.38% of the share capital of Kedrion S.p.A. is held by Sestant Internazionale S.p.A., 25.06% by FSI Investimenti S.p.A. and 5.56% from Sestant S.p.A., which jointly control the Company based on statutory arrangements that require a qualified majority in the Board of Directors for resolutions over Reserved Matters. The Board of Directors acknowledges that the Company is not subject to management and coordination by the joint controlling companies Sestant Internazionale S.p.A., FSI Investimenti S.p.A. and Sestant S.p.A. in accordance with the provisions of Articles 2497 sexies and 2497 septies of the Civil Code. The Company's bodies have full and unconditional autonomy from the management point of view, as the preparation of the strategies it is carried out by the Management without any influence being exerted by the shareholders.

The presentation format for the consolidated balance sheet classifies items in an increasing order of liquidity, where:

- Current assets include items which are:
  - expected to be realized, or intended to be sold or consumed, in the normal operating cycle;
  - held primarily for the purpose of trading;
  - expected to be realized within twelve months after the reporting period; or
  - cash or cash equivalents unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period;
- Non-current assets are all other assets that do not fall within the definition above. They mainly include intangible assets with definite and indefinite life, tangible assets and equity investments;
- Current liabilities include liabilities that:
  - are expected to be settled in the normal operating cycle;
  - are held primarily for the purpose of trading;
  - are due to be settled within twelve months after the reporting period; or
  - the entity does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting date;
- Non-current liabilities include all other liabilities that do not fall within the definition above.

The presentation format for the consolidated Statement of profit or loss for the year as at 31 December 2017 and 2016 is illustrated by function that is considered more representative than the presentation by nature of expense. The adopted format complies with internal reporting and business management methods. The consolidated statement of cash flow was prepared according to the indirect method and in the format compliant with IAS 7, classifying cash flows under operating, investment and financing activities.
The cash flow related to financial charges paid and financial income collected is presented in financing activities and not in operating activities.

The financial statements for year ended 31 December 2017 were approved for publication by the Board of Directors at the meeting on 29 March 2018.

6.2. PERIOD'S SIGNIFICANT EVENTS

6.2.1. MELVILLE PLANT'S REFITTING

The project, started in April 2016, has continued with the total shutdown of the US Melville plant (also called "refitting"), for (i) the complete refitting of the existing fractionation line with the aim of complete integration and harmonization of this plant with the other plants of Kedrion Group, as well as the implementation of some recommendations received from the US Food & Drug Administration (FDA) and (ii) the realization of a fractionation and purification line of the anti-D immunoglobulin (RhoGAM), aimed at internalising the production of this specialty.

The project, which involved investments of Euro 54.1 million in 2017 for the Group (to be added to approximately Euro 29.5 million already invested in 2016), has been completed from an industrial perspective and the operational restart of the plant is expected in the first half of 2018, after the necessary validation and regulatory phases.

Melville plant's shutdown, in addition to contributing to the slight decrease in the turnover of plasma derivatives due to the lower availability of products, significantly impacted the income statement for the year due to the non-absorption of costs of the plant (that during the shutdown do not lead to corresponding production and revenues), non-capitalised operating expenses and the write-down of inventories produced before the shutdown, as well as higher depreciation for the assets replaced as part of the project, for a total amount of Euro 45.8 million, as well as for the reduction in sales margins due to the recourse to an outsourced manufacturing contract with Grifols for products to be sold in the American market.

6.2.2. CASTELVECCHIO PASCOLI NEW PLANT FOR THE PURIFICATION OF 10% IMMUNOGLOBULIN (KIG10)

During the year the project for the realization of the new Castelecchio Pascoli (LU) plant for the purification of 10% immunoglobulin (KIg10) with the chromatographic method was continued. The ongoing Melville shutdown has also led to a delay in the industrial start-up of this project, and has extended the costs related to the start-up and to the preparatory activities to obtain the necessary authorizations and for the registration of the product. Costs which have not yet found a balance in production and related revenues are estimated at Euro 9.9 million.

6.2.3. TERMINATION OF BIVIGAM DISTRIBUTION AGREEMENT

In January 2017, at Biotest's request, the agreement for the exclusive commercialization on the US market of Bivigam specialty was discontinued.

The termination of the Bivigam distribution agreement led Kedrion to lose a significant source of segment revenues (about Euro 54 million turnover was achieved in 2016) and the related margins.

The settlement agreement signed between the parties has also foreseen the payment in the financial year of an amount of 17.5 million dollars to compensate Kedrion for the lost net profits that would derive from the distribution contract, and that have been recorded in the profit and loss account of the year in other income.

6.2.4. SALES AND PURCHASES/START-UP OF OWNED COLLECTION CENTERS

On the one hand, the segment saw the sale of six plasma collection centers deemed not strategic to the Grifols Group (which was completed in February 2017), on the other hand, the purchase/start-up during the year of five centers in the United States and a center in Hungary, for a total of 24 owned centers at the end of the year.

The sale to Grifols of the six collection centers contributed significantly to the result for the period, recording an amount equal to approximately Euro 30 million among other income.

6.2.5. ISSUANCE OF A NEW BOND, PARTIAL REPAYMENT OF THE EXISTING ONE AND OPERATIONS ON OTHER CREDIT LINES

As regards financial management, a number of debt optimization operations were completed, culminating with the issuance of a new Euro 350 million bond maturing in 2022 and a 3% coupon. The new bond was partially used to repurchase 91 million of the bond maturing in 2019.
During the year, two credit lines originally repayable by April 2019 were extended to 2022 for a total amount of Euro 188 million and a new Euro 60 million revolving facility was signed, against the repayment of the Euro 90 million Term Loan outstanding at 31 December 2016.
Overall, these operations allowed Kedrion to extend its average maturity on favorable terms.
Concerning the impact on the results of the year, the above transactions entailed the charging to the income statement of higher financial costs of Euro 4.9 million, linked to the repurchase costs of 91 million Euro of the bond maturing in 2019 and to the relative amortized cost portion, also charged to the income statement.

6.2.6. FOREIGN EXCHANGE

Unfavorable foreign exchange fluctuations (in particular in the EUR/USD, which rose from 1.0541 at 31 December 2016 to 1.1993 at 31 December 2017) generated a negative impact on the income statement due to realized and unrealized exchange differences for Euro 17.0 million (last year the effect on the result was positive for Euro 5.3 million), as well as a decrease of the shareholders' equity of the Group and of third parties for Euro 25.7 million due to the change in the conversion reserve.

6.3. **ACCOUNTING STANDARDS AND MEASUREMENT CRITERIA**

6.3.1. CONTENTS AND FORM OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements of Kedrion S.p.A. as at 31 December 2017 have been prepared in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and adopted by the European Union, and in accordance with the regulations issued to implement the art. 9 of Legislative Decree n. 38/2005. IFRS also include all valid International Accounting Standards ("IAS") and all interpretations of the International Financial Reporting Standards Interpretations Committee ("IFRS IC"), including those previously issued by the Standing Interpretations Committee ("SIC").

The accounting standards adopted in drawing up the consolidated financial statements as at 31 December 2017 are consistent with those used to draw up the annual consolidated financial statements as at 31 December 2016, except for the new principles, amendments and interpretations in force as of 1 January 2017 that have been adopted.

The consolidated financial statements have been prepared on a historical cost basis, except for derivative financial instruments, that are recorded at fair value. These financial statements have been prepared on the assumption that the business is a going concern and, if allowed, on the accrual accounting principle.

The functional currency of the consolidated financial statements is the Euro, and all figures are rounded up to the nearest thousand Euro unless indicated otherwise.

6.3.2. CONSOLIDATION AREA

The consolidated financial statements include the financial statements of Kedrion S.p.A. and those of its subsidiaries as at 31 December 2017. Control is obtained when the Group is exposed to or has the right to variable returns resulting from its involvement with the investee and, at the same time, is able to influence said returns by exercising its power over said entity.
Specifically, Kedrion S.p.A. controls an investee if, and only if, the company has:

- Power over the investee (i.e. it has valid rights that give it the ability to direct the relevant activities of the investee);
- Exposure or rights to variable returns from its involvement with the investee;
- The ability to use its power over the investee to affect the amount of its returns.

Generally, it is assumed that holding a majority of voting rights entails control. To support this assumption and when the Group holds less than the majority of voting rights (or similar rights), the Group considers all of the relevant facts and circumstances to establish whether it controls the investee, including:

- Contractual agreements with other holders of voting rights;
- Rights resulting from contractual agreements;
- Voting rights and potential voting rights of the Group.

The Group reconsiders whether it has control over an investee if the facts and the circumstances indicate that there have been changes in one or more of the three elements that define control. Consolidation of a subsidiary starts when the Group obtains control of the same and ceases when the Group loses control of the same. The assets, liabilities, revenues and costs of the subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date on which the Group obtains control until the date on which the Group no longer has control over the Company.

The profit/(loss) for the year and all of the other components of comprehensive income are attributed to the shareholders of the Parent and to the non-controlling interests, even if this implies that the non-controlling interests have a negative balance. When necessary, the appropriate adjustments are made to the financial statements of subsidiaries, in order to guarantee compliance with the Group's accounting policies. All intragroup assets and liabilities, shareholders' equity, revenues, costs and cash flows relating to transactions between group entities are fully eliminated at the time of consolidation.
Changes in the share of investment in a subsidiary that do not result in a loss of control are recorded under shareholders' equity.

If the Group loses control of a subsidiary, it must eliminate the relative assets (including goodwill), liabilities, non-controlling interests and other equity components, while any profit or loss is recognised in the statement of profit or loss. Any equity investment maintained must be recognised at its fair value.

The table below summarises with regard to the subsidiary companies, the information as at 31 December 2017 concerning their name, registered office and the percentage of share capital held directly and indirectly by the Group.

Subsidiaries (consolidated with the line-by-line method)						
Name	Registered Office	Currency	Share capital units of currency	% control		Notes
				Direct	Indirect	
Kedrion International GmbH	Vienna – Austria	Euro	70,000	100%		
HUMAN BioPlazma Kft.	Gödöllő – Hungary	Hungarian Forint	4,000,000,000	100%		
Kedrion Mexicana S.A. de C.V.	Mexico City – Mexico	Peso	2,061,320	60%		
Kedrion Biopharma Inc.	New Jersey – United States	US Dollar	1	100%		
KEDRION BRASIL DISTRIBUIDORA DE PRODUTOS HOSPITALARES LTDA	Goiania – Brazil	Brazilian Real	700,000	51%		
Kedrion Betaphar Biyofarmasötik İlaç Sanayi ve Ticaret Anonim Şirketi	Ankara - Turkey	Turkish Lira	500,000	60%		
KEDRION DE COLOMBIA S.A.S.	Bogotà - Colombia	Colombian Peso	30,000,000	100%		
KEDRION PORTUGAL - DISTRIBUIÇÃO DE PRODUTOS FARMACÊUTICOS UNIPESSOAL, LDA	Alges - Portugal	Euro	50,000	100%		
Kedrion Swiss Sarl	Zug – Switzerland	Swiss Franc	20,000	100%		
KEDPLASMA GmbH	Grafelfing – Germany	Euro	25,000	100%		
Kedrion Biopharma India Private Limited	Gurgaon - India	Indian Rupee	13,900,000	60%	40%	1
KEDPLASMA LLC	Delaware – United States	US Dollar	1,382,522		100%	2
KEDPlasma Kft.	Gödöllő – Hungary	Hungarian Forint	12,000,000		100%	3

1. Through Kedrion Biopharma Inc and through HUMAN BioPlazma Kft.
2. Through Kedrion Biopharma Inc.
3. Through HUMAN BioPlazma Kft.

During the year, the following transactions took place within the Group:

- At the beginning of the year the reorganization of the commercial activity managed by the Austrian subsidiary Kedrion International was completed with the transfer of the German market to the local subsidiary KEDPLASMA GmbH;
- On 23 March 2017, a new company was established in Russia, Kirov Plasma. Kedrion has the role of technology partner and holds 25% of the joint venture. The Italian-Russian partnership was born with the aim of creating a plasma fractionation plant in Kirov and at the closing date it is still in the start-up phase.

6.3.3. CONSOLIDATION CRITERIA

The consolidated financial statements are prepared on the basis of draft financial statements drawn up by each of the consolidated companies and approved by their respective Boards of Directors or similar competent bodies. These draft financial statements of the subsidiaries are prepared with reference to the same financial year and by adopting the same accounting standards as the Parent Company. Subsidiaries are consolidated on a line-by-line basis as from the date of their acquisition, i.e. the date on which the Group acquires control, and cease to be consolidated on the date on which control is transferred outside the Group.

Specifically, for the consolidated companies, the following consolidation criteria were applied:

- The carrying amount of the investments included in the consolidation area was de-recognised against the subsidiaries' shareholders' equity according to the line-by-line method and where the direct or indirect investment is less than 100%, the share of the result and of shareholders' equity attributable to non-controlling interests is attributed and stated in a separate item of the consolidated Statement of profit or loss for the year and in the consolidated Statement of financial position;
- Any difference between the acquisition cost and the carrying amount of shareholders' equity of the investees at the time of acquisition of the investment, if positive, is allocated to the specific assets of the companies acquired on the basis of their current values at the acquisition date and, for the remaining portion, where conditions are met, to the item Goodwill. In this case, these amounts are not amortised but subject to impairment testing at least once a year and in any case whenever it is deemed necessary in the event of impairment. If derecognition of the investment gives rise to a negative difference, this is entered in the statement of profit and loss;
- Payables and receivables, costs and revenues, gains and losses ensuing from transactions performed between Group companies are derecognised with consideration for the related tax effects;
- The effects arising from extraordinary transactions involving Group companies (mergers, contributions, etc.) in the case of jointly-controlled business combinations are derecognised.

6.3.4. TRANSLATION INTO EURO OF FINANCIAL STATEMENTS DRAWN UP IN FOREIGN CURRENCY

The consolidated financial statements are presented in Euro, the Company's functional currency. Each company in the Group defines its own functional currency which is used to measure the individual items in its individual financial statements.
The financial statements of foreign companies expressed in currencies other than the Euro are translated into Euro according to the following procedures:

- The items of the profit and loss statement are translated at the year-average exchange rates, while the balance sheet items are translated at the rates in force at year-end with the exclusion of shareholders' equity (included in the result for the year);
- The shareholders' equity items, including the result for the year, are translated at historical exchange rates.

The translation difference arising from this process is entered under consolidated shareholders' equity under the item "Exchange differences on translation of foreign operations", which is classified within the item Other Reserves. At the time of disposal of a foreign company, the exchange differences accumulated in this reserve, and relating to the company sold, are booked within the statement of profit and loss.

The exchange rates used to determine the value in Euro of the financial statements expressed in foreign currencies of the subsidiaries (value for 1 Euro) are set forth in the table below:

	Average exchange rates for the year ended 31 December		Year-end exchange rate as at 31 December	
Currency (for 1 Euro)	2017	2016	2017	2016
US Dollar	1.13	1.11	1.20	1.05
Hungarian Forint	309.19	311.44	310.33	309.83
Swiss Franc	1.11	1.09	1.17	1.07
Mexican Peso	21.33	20.67	23.66	21.77
Brazilian Real	3.61	3.86	3.97	3.43
Indian Rupee	73.53	74.37	76.61	71.59
Turkish Lira	4.12	3.34	4.55	3.71
Colombian Peso	3,336.17	3,376.93	3,580.19	3,169.49

TRANSACTIONS AND BALANCES

Transactions are initially recorded by the Group's entities at their respective functional currency applying currency exchange interest spot rate as of transaction date. Foreign currency monetary assets and liabilities are exchanged in functional currency applying currency exchange interest rate at reporting date. Foreign currency translation realised gains and losses and those arising on translation of monetary items are recognized in the Consolidated Statement of profit or loss. Tax charges related to differences arising on translation of monetary items are recognized in the Consolidated Statement of profit or loss too. Non-monetary items measured in terms of historical cost in a foreign currency are translated using the exchange interest rates as at the date of initial transaction. Non-monetary items measured at fair value in a foreign currency are translated using the exchange interest rate as at fair value settlement date. The gain or loss arising on translation of non-monetary items measured at fair value is treated in line with the recognition of the gain or loss on the change in fair value of the item (i.e. translation differences on items whose fair value gain or loss is recognized in OCI or profit or loss are also recognized in OCI or profit or loss, respectively.)

6.3.5. CHANGES IN INTERNATIONAL ACCOUNTING STANDARDS

The accounting standards adopted are the same as those of the previous year.

AMENDMENTS TO IAS 12: INCOME TAXES

The amendments clarify that an entity must consider whether the tax legislation limits the sources of taxable income against which it could make deductions on the cancellation of the deductible temporary differences. In addition, the amendment provides guidelines on how an entity should determine future taxable income and explains the circumstances in which taxable income could include the recovery of certain assets for a value greater than their carrying amount. Entities must apply these changes retrospectively. However, at the time of the initial application of the amendments, the change in opening shareholders' equity in the first comparative period could be recognized under retained earnings at the opening (or in another equity item, as appropriate), without allocating the change between retained earnings at the start and other items of equity. The entities that apply this facilitation must inform it. These amendments are in force for financial years beginning on or after 1 January 2017, early application it is permitted. If an entity applies these changes in advance, it must disclose it. This change had no impact on the consolidated financial statements of the Group.

AMENDMENTS TO IAS 7: CASH FLOW STATEMENTS

The amendments to IAS 7 Cash Flow Statement are part of the IASB Disclosure Initiative and require to a company to provide supplementary information that enables users of financial statements to assess changes in liabilities related to financing activities, including both changes linked to cash flows and non-monetary changes. At the time of the initial application of this modification, the entity have not present the comparative information relating to previous periods. These changes are in force for financial years starting on 1 January 2017 or later, early application is allowed. The Group has included in the notes to the consolidated financial statements in note 6.4.18, a table with the new information deriving from the amendment of IAS 7 for the current year, as the standard do not provide an obligation to present comparative data.

The Group has not adopted in advance any standard, interpretation or improvement issued but not yet in force.

6.3.6. STANDARDS ISSUED BUT NOT YET EFFECTIVE

The standards which, at the date of the Company's financial statements, were already issued but not yet effective are shown below. The list refers to the standards and interpretations that the Company reasonably expects to be applicable in the future. The Company intends to adopt these standards when they become applicable.

IFRS 9: FINANCIAL INSTRUMENTS

In July 2015, the IASB issued the final version of IFRS 9 Financial Instruments which replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. IFRS 9 combines all three aspects related to the project on accounting for financial instruments: classification and measurement, loss of value and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018; early application is allowed. With the exception of hedge accounting, the retrospective application of the standard is required, but it is not mandatory to provide comparative information. As regards hedge accounting, the standard generally applies prospectively, with some limited exceptions.
The Group will adopt the new standard from the date of implementation and will not restate the comparative information. The assessment of the impact of IFRS 9 was launched on all three aspects dealt with by IFRS 9. This activity, in consideration of the significant events that characterized the year and which have engaged the Group on other activities, is ongoing; the evaluation will be completed in the first few months of 2018.

IFRS 15: REVENUES ARISING FROM CONTRACTS WITH CUSTOMERS

The IFRS 15 standard was issued in May 2014 and amended in April 2016, and provides a five-step new model to be applied to revenue from contracts with customers. According to IFRS 15, revenue should be recognised for an amount corresponding to the right in payment the entity believes to have against the sale of goods or services to customers.
This new standard will replace all current requisites envisaged in the IFRS as regards recognition of revenue. The standard is applicable to the annual periods beginning on or after 1 January 2018, with full or modified retrospective application. Early application is permitted.
The Group plans to apply the new standard from the date of mandatory effectiveness.
The assessment of the impact of IFRS 15 has started, simulating the application of the standard to contracts belonging to the main revenue stream identified at Group level. This activity, in consideration of the significant events that characterized the year and which engaged the group in other activities, is still ongoing; the evaluation will be completed in the first months of 2018.

IFRS 16: LEASES

IFRS 16 was published in January 2016 and replaces IAS 17 Leases, IFRIC 4 Determining Whether an Arrangement Contains a Lease, SIC-15 Operating Leases - Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. IFRS 16 defines the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases in the financial statements based on a single model similar to the one used to account for finance leases in accordance with IAS 17. The standard sets out two exemptions for recognition by lessees – leases relating to assets with "low value" (for example, personal computers) and short-term leases (for example, leases maturing within 12 months or less). Upon lease commencement, the lessee shall recognise a liability against the lease payments (i.e. a lease liability) and assets that represent the right-of-use of the underlying asset for the duration of the lease (i.e. the right-of-use of the asset). Lessees must separately record interest expense on the lease liability and the amortisation of the right-of-use of the asset. Lessees must also remeasure the lease liability on the occurrence of specific events (for example: change in the conditions of the lease contract, change in future lease payments resulting from a change in an index or a rate used to determine those payments). The lessee generally recognises the remeasurement amount of the lease liability as an adjustment to the right-of-use of the asset. The accounting method set out in IFRS 16 for lessors is essentially unchanged with respect to today's accounting method in accordance with IAS 17. Lessors will continue to classify all leases using the same classification principle set out in IAS 17 and distinguishing between two types of leases: operating leases and finance leases.
IFRS 16 requires more extensive information from lessees and lessors than IAS 17.

IFRS 16 will come into force for annual periods beginning on or after 1 January 2019. Early application is permitted, but not before the entity has adopted IFRS 15. A lessee may choose to apply the standard using a fully retrospective approach or a modified retrospective approach. The transitional provisions set out in the standard permit several expedients.

In 2018 the Group will continue defining the potential effects of IFRS 16 on its consolidated financial statements.

AMENDMENTS TO IFRS 2: CLASSIFICATION AND MEASUREMENT OF PAYMENTS BASED ON SHARE

The IASB issued amendments to IFRS 2 Share-based payments that deal with three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment; classification of a share based payment transaction with net settlement features for withholding tax obligations; accounting where a cash-settled share-based payment changes to an equity-settled share-based payment because of modifications of the terms and conditions.
At the moment of adoption, entities must apply the amendments without re-stating the previous periods, but retrospective application is permitted if chosen for all three amendments and other criteria are met.
These amendments are in force for financial years beginning on or after 1 January 2018, early application is permitted. The Group does not currently present the circumstances and will evaluate the effects of these changes on its consolidated financial statements if they occur in the future.

AMENDMENTS TO IFRS 10 AND IAS 28: SALE OR CONTRIBUTION OF ASSETS BETWEEN AN INVESTOR AND ITS ASSOCIATE OR JOINT VENTURE

The amendment aims at eliminating the conflict between the requirements of IAS 28 and IFRS 10 with regard to the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendment clarifies that the gain or loss resulting from the sale or contribution of assets that constitute a business as defined in IFRS 3, between an investors and its associate or joint venture must be recognised in full. Furthermore, any gain or loss resulting from the sale or contribution of assets that do not constitute a business is recognised only for the portion held by third party investors in the associate or joint venture. The IASB postponed the date of application of these amendments indefinitely, but if an entity decides to apply them early they must be applied prospectively.

AMENDMENTS TO IAS 40: TRANSFERS OF INVESTMENT PROPERTY

The amendments clarify when an entity shall transfer a property, including a property under construction or development to, or from, investment property. The amendment establishes that a change in use occurs if the property meets, or ceases to meet, the definition of investment property and there is evidence of a change in use. A simple change in management's intentions for the use of the property by itself does not constitute evidence of a change in use. An entity should apply the amendments prospectively to changes in use that occur on or after the beginning of the annual reporting period in which the entity first applies the amendments. An entity should newly assess the classification of property held at that date and, if applicable, reclassify it to reflect the conditions existing at that date. Retrospective application in accordance with IAS 8 is permitted only if that is possible without the use of hindsight. These amendments are in force for annual periods beginning on or after 1 January 2018. Early application is permitted, for which disclosure must be provided. The Group will apply the amendments from the date of entry into force.

The Group does not expect any effects on its consolidated financial statements.

ANNUAL CYCLE OF IMPROVEMENTS 2014-2016

These improvements include:

- **IFRS 1 First Adoption of International Financial Reporting Standards - Elimination of short-term exemptions.** The short-term exemptions set forth in paragraphs E3-E7 of IFRS1 were deleted as they have fulfilled their purpose. The amendment is effective from January 1, 2018. This change does not apply to the Group.
- **IAS 28 Investments in associates - Clarification that the fair value measurement recorded in the income statement is a choice separately applicabile to each individual investment**. Changes clarify that:
  - An entity that is a venture capital organization, or another qualified entity, may decide, at the moment of initial recognition and with reference to the individual investment, to evaluate its investments in associates and joint ventures at fair value recorded in income statement.
  - If an entity that does not qualify as an investment entity, has an investment in an associate or joint venture that is an investment entity, the entity may, when applying the equity method, decide to maintain the valuation at fair value applied by that investment entity (whether an associated company or a joint venture) in the measurement of its own (of the associated or joint venture) investments. This choice is made separately for each associate or joint venture that is an investment entity on the last date (in terms of expression) of the following: (a) initial recognition of the investment in the associate or joint venture which is an

entity of investment; (b) in which the associate or joint venture becomes an investment entity; and (c) in which the associate or joint venture which is an investment entity becomes for the first time the parent company.

The amendments should be applied retrospectively from January 1, 2018; early application is allowed. If an entity applies these changes in advance, it must disclose it. These changes are not applicable to the Group.

IFRIC INTERPRETATION 22: FOREIGN CURRENCY TRANSACTIONS AND ADVANCES ON CORRESPECTIVE

The interpretation clarifies that, when defining the spot exchange rate to be used for the initial recognition of the related asset, costs or revenues (or part of these) at the time of the cancellation of a non-monetary asset or a non-monetary liability relating to down-payment on fees, the transaction date is the date on which the entity initially recognizes the non-monetary asset or the non-monetary liability relating to down-payment on fees. In the case of multiple payments or advances, the entity must define the transaction date for each payment or advance on fees. Entities could apply the changes on a fully retrospective basis. Alternatively, an entity could apply the Interpretation prospectively to all assets, costs and revenues that fall within its scope that were initially recognized on the following dates or subsequently:

- At the beginning of the year in which the entity first applies the interpretation or
- At the beginning of the previous year presented for comparative purposes in the financial statements for the year in which the entity first applies the interpretation.

The Interpretation is in force for the financial years starting on 1 January 2018 or later. The early application of which information must be given is allowed. The Group does not expect any effect on its consolidated financial statements.

IFRIC INTERPRETATION 23: UNCERTAINTIES ON TAX TREATMENT OF TAXES

The Interpretation defines the accounting treatment of income taxes when the tax treatment involves uncertainties that affect the application of IAS 12; it does not apply to taxes or taxes that do not fall under IAS 12, nor does it specifically include requirements related to interest or penalties attributable to uncertain tax treatments.

The Interpretation deals specifically with the following points:

- If an entity considers the tax treatment uncertain separately
- The assumptions of the entity on the examination of tax treatments by the tax authorities
- How an entity determines the taxable profit (or tax loss), the tax base, unused tax losses, unused tax credits and tax rates
- How an entity treats changes in facts and circumstances.

An entity must define whether to consider any uncertain tax treatment separately or together with others (one or more) uncertain tax treatments. The approach that allows the best prediction of the uncertainty solution should be followed. The interpretation is in force for the financial years starting on 1 January 2019 or later, but some transitional facilities are available. The Group will apply the interpretation on the date of entry into force. Taking into consideration the specific nature of the sector, the Group does not expect significant impacts on its consolidated financial statements.

AMENDMENTS TO IAS 28: LONG-TERM INTEREST IN ASSOCIATES AND JOINT VENTURE

The amendment clarifies that an entity must apply IFRS9 to long-term interests in associated companies and joint ventures, which is part of a net investment in associates and joint ventures, to which the valuation using the equity method is not applied . The amendment is in force for the

financial years that start on 1 January 2019 or later and the application is retrospective. Early application is allowed. The Group will apply the interpretation on the date of entry into force.

AMENDEMENTS TO IFRS 9: PREPAYMENT FEATURES WITH NEGATIVE COMPENSATION

The amendment clarifies that the evaluation of the payment for the closure of a loan by the lender does not depend on the sign of the payment, but is determined in the same way whether it is positive or negative. The amendment is in force for the financial years that start on 1 January 2019 or later and the application is retrospective. Early application is allowed. The Group will apply the interpretation on the date of entry into force.

ANNUAL CYCLE OF IMPROVEMENTS 2015-2017

These improvements includes:

- IFRS 3 Business Combination: The amendment clarifies that an entity re-evaluates the interest held in a joint operation when it obtains control of the business;
- IFRS 11 Joint Arrangements: The amendment clarifies that an entity does not re-evaluate the interest held in a joint operation when it obtains joint control of the business;
- IAS 12 Income taxes. The amendment clarifies that an entity must account for all income taxes arising from the payment of dividends in the same way;
- IAS 23 Borrowing costs: The amendment clarifies that an entity must account for loans originally incurred to develop an asset, as part of other loans when the asset is ready for use or for sale.

The amendment is in force for the financial years starting on 1 January 2019 or later. Early application is allowed. The Group will apply the interpretation on the date of entry into force.

6.3.7. DISCRETIONARY ASSESSMENTS AND SIGNIFICANT ACCOUNTING ESTIMATES

Preparation of the Group financial statements requires that directors make discretionary assessments, estimates and assumptions affecting the value of revenues, costs, assets and liabilities and the disclosures on potential assets and liabilities as at the reporting date. During the year, the most significant discretionary assessments concerned the verification of any impairment loss on goodwill and the judgment applied in defining the accounting effects related to the refinery project of Melville plant, as better indicated below. Additional items that require the formulation of estimates include deferred tax assets and liabilities, employee benefits and other items detailed below.

In the future, if these estimates and assumptions - which are based on the best assessment available at the time and are subject to regular review - should differ from the final results, they will be amended accordingly in the period in which the circumstances change. The effect of the change will be carried to the statement of profit and loss.

IMPAIRMENT OF GOODWILL

Goodwill is subject to impairment testing at least once a year; impairment testing involves an estimate of the fair value of the cash flow generating unit to which goodwill is attributed, in turn based on the market multiplier method deriving from similar companies operating in the same sector and listed on organised markets or based on the discounted cash flow method (DCF). In the case that the valuation is made using the multiples method, the main discretionary choices and assumptions concern the choice of comparable companies. In cases instead where the verification is made using the DCF, the most relevant estimates and assumptions refer to the estimate of cash flows, the growth rates to be applied beyond the explicit forecast period and the determination of the discount rate.

As at 31 December 2017 and 2016, the carrying amount of goodwill is equal to Euro 219.318 thousand and Euro 218.979 thousand. Further details are provided in paragraph 6.4.3.

ACCOUNTING ESTIMATES CONNECTED WITH THE MELVILLE PLANT REFITTING PROJECT

The refitting project of the Melville production plant required management to make judgements, in particular with reference to (i) the recognition of costs incurred during 2017 for the refitting as fixed assets under construction or as expenses in the income statement; (ii) the identification of costs recognised in the income statement by the subsidiary during 2017 and presented in the consolidated financial statements as non-recurring, (iii) the identification of assets no longer usable as a result of the project, which led to higher amortization charged to the income statement and (iv) the write-down of the inventories of the subsidiary.

Property plant and equipment and intangible assets with definite useful life

As part of the plant's refitting project, the Group constantly monitored the costs related to it through internal reporting, also prepared for reporting purposes to the Board of Directors, which compares the project budget data with the final figures and separates the capitalized amounts ("Capex") from costs charged to the income statement for the period ("Opex"). All of the costs that do not meet the capitalization requirements set forth in the accounting standards and described in note 6.3.8 have been considered as Opex.
Since the refitting project represents a significant change in the plant, the Group also verified the recoverability of the carrying amount of the costs capitalized in years prior to the refitting by (i) a detailed analysis of the existing assets, which led to zero the value of the replaced or no longer usable assets due to the refitting project and (ii) impairment test on the CGU, as described in the following note 6.4.3.

Inventories

Raw materials, semi-finished and finished products are generally subject to maturity, therefore management considers the maturity date associated with each batch as a fundamental element in assessing their recoverability. It should be noted that the expiry dates of the raw materials are no longer relevant once they are put into production. In such cases, the expiration date attributed to the semi-finished and finished products in the production process is considered.
Inventories with maturity dates near period-end are entirely written down to take into account their difficult recoverability.
Regarding the inventories of finished and semi-finished products of the Melville plant that were transformed before the start of the refitting project and still in stock, in addition to the ordinary analysis of expiry dates, the Group has carried out specific tests on the entire population with the support of the appropriate company functions and qualified external consultants to assess their compliance with the quality standards and the actual usability by writing-down both the batches deemed to be non-compliant and those whose conformity has been confirmed but whose expiration date could occur before full operational restart of the plant.

Non-recurring costs

The costs related to Melville plant and charged to the income statement during the plant's shutdown period and the operating expenses of the project which did not meet the capitalization requirements were charged to the income statement, the higher depreciation of the assets replaced or no longer usable as a result of the project, as well as the write-downs of inventories recognized in the year according to the procedure indicated above, are considered by management as non-recurring as related to the shutdown and refitting of the plant described in

the introduction and therefore to an operation whose occurrence is exceptional and clearly not frequent in the normal course of business. These costs were measured based on the results of the analytical accounting of the plant cost centers and were included in the non-recurring costs of the period as detailed in note 6.5.11.

DEFERRED TAX ASSETS AND LIABILITIES

Deferred tax assets are recognised for all temporary differences and all tax losses carried forward, to the extent to which it is likely that future taxable income will exist from which such losses can be recovered. A considerable discretionary assessment is required of directors to determine the amount of deferred tax assets to be recognised. They have to estimate the future likelihood of events and the total future taxable earnings, along with a planning strategy for future taxes. Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority. The carrying amount of prepaid tax assets as at 31 December 2017 is equal to Euro 6,089 thousand. Further details are provided in paragraph 6.4.8. The same considerations described above are also applied to tax consolidation receivables due from the shareholder Sestant S.p.A. for transfers of tax losses by the Parent Company.

EMPLOYEE BENEFITS - EMPLOYEE SEVERANCE INDEMNITY

The actuarial valuation requires the development of assumptions about discount rates, future salary increases, turnover and mortality rates. Due to the long-term nature of these plans, these estimates are subject to a significant degree of uncertainty. All assumptions are reviewed annually.

Actuarial assessment calls for the drafting of assumptions regarding discount rates, future pay increases, staff turnover and mortality rates. Given the long-term nature of such plans, these assessments are subject to a considerable degree of uncertainty. All assumptions are viewed on an annual basis.

Net liabilities to employees for severance indemnity as at 31 December 2017 and 2016 amounted to Euro 6,738 thousand and Euro 5,157 thousand. Further details are provided in paragraph 6.4.21.

OTHER ACCOUNTING ESTIMATES

Estimates are also used to recognize provisions for credit risks, inventory obsolescence and product rebates, amortization of tangible and intangible assets with definite life, the valuation of receivables for services accrued, invoices to be received for services provided and income taxes for the year.

They also concern development costs that are capitalized on the basis of the accounting principle referred to in note 6.3.8. To determine the values to be capitalized, the directors must elaborate assumptions regarding the expected future cash flows from fixed assets, the discount rates to be applied and the periods of manifestation of expected benefits. At 31 December 2017 and 2016, capitalized development costs were Euro 197 thousand and Euro 28 thousand respectively.

Finally, in the next paragraph we give an indication of the estimates applied in determining the fair value of financial instruments, the determination of which did not however have any particular effect on the 2017 financial statements.

FAIR VALUE MEASUREMENT

The Group measures financial instruments, such as derivatives, and non-financial assets at fair value at each reporting date.

The fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.
A fair value measurement assumes that the sale of the asset or transfer of the liability takes place:
(a) in the principal market for the asset or liability; or
(b) in the absence of a principal market, in the most advantageous market for the asset or liability.
The principal market or most advantageous market must be accessible by the Group.
The fair value of an asset or liability is measured adopting the assumptions that market operators would use in determining the price of the asset or liability, assuming that they are acting to best satisfy their economic interest.
Fair value measurement of a non-financial asset considers the market operator's capacity to generate economic benefits through the highest and best use or selling it to another market operator that will ensure its highest and best use.
The Group uses measurement techniques suitable to the circumstances, for which there is sufficient data available to measure the fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.
All assets and liabilities for which fair value is measured or posted in the financial statements are categorised based on the fair value hierarchy, as described below:

- Level 1 - (unadjusted) quoted prices in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 – Inputs other than quoted market prices included within Level 1, that are observable for the asset or liability, either directly or indirectly;
- Level 3 – measurement techniques for which the input data of the asset or liability is unobservable.

The fair value measurement is classified fully in the same level of the fair value hierarchy as the lower hierarchy level used for measurement.
For assets and liabilities recognised in the financial statements on a recurring basis, the Group determines whether transfers occurred between hierarchy levels, reviewing the categorisation (based on the input of the lowest level, which is significant for the fair value measurement as a whole) at each reporting date.
Group management determines the criteria and procedures for both recurring and non-recurring fair value measurement.
External experts are involved in measuring significant assets, such as property investments, and significant liabilities, where necessary.
At each reporting date, Group management analyses the changes in the values of assets and liabilities for which revaluation or recalculation is required, based on the Company's accounting standards.
For these analyses, the main inputs applied in the most recent measurement are verified, comparing the information used in the measurement to contracts and other significant documents.
Group management, also with the support of the external experts, where necessary, conducts a comparison between each change in the fair value of each asset or liability and significant external sources, to determine whether the change is reasonable.
The results of the measurements are periodically presented to the Group's Board of Statutory Auditors and independent Auditors. This presentation includes a discussion of the main assumptions used in the measurements.
For the purposes of fair value disclosure, the Company determines the classes of assets and liabilities based on the nature, characteristics and risks of the asset or liability and the level of fair value hierarchy as illustrated above.

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6.3.8. VALUATION CRITERIA

PROPERTY, PLANT AND EQUIPMENT

Tangible assets are recognised at their historical cost, including accessory costs directly attributable and necessary to operational start-up of the asset for the use for which it was purchased. This cost item includes costs to replace machine and system parts at the time they are incurred, and provided they comply with recognition criteria.
Maintenance and repairs expenses, that are not expected to enhance and/or prolong the residual life of the assets, are recorded in the period they are incurred; otherwise, they are capitalised.
Tangible assets are recorded net of related depreciation and any impairment loss calculated as described below. Depreciation is calculated on a straight-line basis over the expected useful life of the asset to the company; the latter is reviewed on an annual basis and any changes, where necessary, are applied prospectively.
If significant parts of such tangible assets have different useful lives, the relevant components are recorded separately. Land, unbuilt or annexed to buildings, is recorded separately and is not subject to depreciation as it is considered to have an unlimited useful life.
The carrying amount of tangible assets is subject to impairment testing to identify any loss of value if events or changing circumstances indicate that the carrying amount cannot be recovered. If there is any indication of this type - and in cases where the carrying amount exceeds the recoverable value - the assets are written-down to reflect their recoverable value. The recoverable value of tangible assets is the higher of the net sale price (fair value) and the value in use.
The value in use is calculated by discounting expected future cash flows at a pre-tax rate that reflects the current market estimate as a ratio between the time value of money and the risks specified for that asset. For an asset that does not generate largely independent cash flows, the value in use is determined in relation to the cash flow generating unit to which the asset pertains. Impairment is recognised in the statement of profit or loss under depreciation expense and write-downs. Such impairment losses are reversed if the reasons generating impairment cease to exist.
At the time of sale or when there is no basis to expect future economic benefits from use of an asset, it is eliminated from the balance sheet and any loss or gain (calculated as the difference between the disposal value and the carrying amount) is recognised in the statement of profit or loss in the year in which it is eliminated.

INVESTMENT PROPERTY

Assets held for earnings rather than production purposes are classified under a specific item, “Investment property”, in accordance with IAS 40, and recorded at their cost less depreciation, depletion and amortization.
Assets falling into this category include land and/or buildings (or parts of buildings) held by the owner or by the lessee as part of a finance or operating lease agreement for the purpose of leasing to third parties in order to benefit from related lease instalments, or in order to benefit from the increase in value of the asset, unless such property:

- Is used in production, for provision of goods and services or for administrative purposes;
- Is held for sale as part of normal business operations.

This type of property is classified separately from other real estate assets held.

FINANCE AND OPERATING LEASING

Finance lease contracts, which essentially transfer all ownership risks and benefits of the leased asset to the Group, are capitalised as at the leasing date at the fair value of the leased asset or, if less, at the current lease instalment value. Instalments are distributed on a pro quota basis between capital and interest so as to permit application of a constant interest rate on the balance

outstanding on the debt. Financial expenses are recognised directly in the statement of profit or loss.
Capitalised leased assets are amortised on the basis of the estimated useful life of the asset. If there is no reasonable certainty that the Group will become owner of the asset upon termination of the contract, amortisation is applied to the shorter of the asset's estimated useful life and the duration of the lease contract.
Leases for which the lessor substantially retains all risks and rewards associated with ownership of the assets are classed as operating leases, and the related costs are recognised in the statement of profit or loss on a straight-line basis for the duration of the contract.

BUSINESS COMBINATIONS AND GOODWILL

Business combinations are accounted for by the acquisition method. This requires recognition - at fair value - of identifiable assets (including any definite life and indefinite life intangible assets not previously recognised) and identifiable liabilities (including potential liabilities and excluding future restructuring) of the acquired company.
Goodwill acquired in a business combination is initially measured at cost, represented by the difference between the cost of the business combination and the relevant net fair value portion of the identifiable asset, liability or potential liability (of the acquired company). If the amount is lower than the fair value of the net assets of the subsidiary acquired, the difference is booked to the statement of profit or loss.
After the initial recognition, goodwill is valued at cost net of accumulated impairment. For the purpose of impairment testing, goodwill acquired under a business combination is allocated, from the date of acquisition, to each cash generating unit which is expected to benefit from the synergies of the combination, regardless of whether other assets or liabilities of the acquired entity are assigned to said units.
Goodwill is tested for impairment at least once per year (at 31 December) and more frequently if there is evidence that the carrying amount has suffered impairment.
Impairment of goodwill is determined by measuring the recoverable value of the cash generating unit (or group of cash generating units) to which the goodwill is attributable. If the recoverable value of the cash generating unit is lower than the carrying amount of the cash generating unit to which the goodwill has been allocated, impairment is recorded. Any decrease in the value of goodwill cannot be written back in future years.
If goodwill has been allocated to a cash generating unit and the entity disposes of part of the assets of said unit, the goodwill associated to the asset disposed of is included in the asset's carrying amount, when the disposal results in a profit or loss. Goodwill associated with asset disposed of is calculated on the basis of the values relating to the asset disposed of and of the part of the cash generating unit retained.

Business combinations occurred during 2017

During 2017, the subsidiary KEDPLASMA LLC purchased from Immunotek Biocenters LLC the business units related to three plasma collection centers in the United States, mainly comprising the plants and related equipment, the personnel involved, the contractual relationships in place, as well as relationships with donors. The allocation of the price paid, equal to 18 million US dollars (15 million Euro), was completed by the end of the year on the basis of an appraisal entrusted to a third-party company.

(In thousands of USD)	Fair value recognized in acquisitions			
	Burlington	Kissimmee	Greenville	Total
NET ACTIVITIES ACQUIRED				
Property, plant and equipment	472	485	421	1,378
Intangible assets with definite life	1,488	1,053	1,434	3,975
- Of which Donor list	507	178	281	966
- Of which licensing	726	587	852	2.165
- Of which Trade Names and Trademarks	255	288	301	844
NET WORKING CAPITAL	**517**	**532**	**1,166**	**2,215**
TOTAL IDENTIFIABLE NET ASSETS AT FAIR VALUE	**2,477**	**2,070**	**3,021**	**7,568**
GOODWILL IDENTIFIED	**4,040**	**4,462**	**4,145**	**12,647**
CONSIDERATION TRANSFERRED	**6,517**	**6,532**	**7,166**	**20,215**
- Of which cash	6,517	6,532	7,166	20,215

The acquisitions made in 2017 have been consolidated starting from the date of control acquisition.
The provisional price allocation made in the 31 December 2016 financial statements for the two centers acquired in 2016 was completed in 2017. The following table shows the final allocation of the price paid following the completion of the valuation of the acquisition.

(In Thousands of USD)	Fair value recognized in acquisitions		
	Ocala	Shreveport	Total
NET ACTIVITIES ACQUIRED			
Property, plant and equipment	504	404	908
Intangible assets with definite life	1,649	1,781	3,430
- Of which Donor list	528	559	1,087
- Of which Licensing	881	930	1,811
- Of which Trade Names and Trademarks	240	292	532
NET WORKING CAPITAL	**530**	**934**	**1.464**
TOTAL IDENTIFIABLE NET ASSETS AT FAIR VALUE	**2,683**	**3,119**	**5,802**
GOODWILL IDENTIFIED	**3,097**	**3,065**	**6,162**
CONSIDERATION TRANSFERRED	**5,780**	**6,184**	**11,964**
- Of which cash	5,780	6,184	11,964

Investments in associates

The Group consolidates its investments in associates by using the equity method. An associate is a company over which the Group exercises significant control.

By using the equity method, an investment in an associate is initially recorded at cost and the carrying amount is increased or reduced to recognise the investor's share of the profits and losses of the investee realised after the acquisition date. Goodwill relating to the associate is included in the carrying amount of the investment and is not subject to amortisation, nor to an individual impairment check.

The statement of profit or loss reflects the Group's share of the associate's result for the year. If an associate records adjustments by direct recognition in shareholders' equity, the Group records its respective share and includes the amount, where applicable, in the statement of changes in shareholders' equity. Any unrealised gains or losses from transactions between the Group and the associate are eliminated in proportion to the investment in the associate.

The statement of profit or loss reflects the Group's share of the associate's result for the year. The Group's share represents the result of the associate attributable to shareholders; therefore, this refers to the result after taxes and amounts due to other shareholders of the associate.

The associate's financial statements are drafted at the same date as those of the Group. Where necessary, the associate's financial statements are adjusted to bring them into line with the Group's accounting standards.

Following the application of the equity method, the Group assesses whether or not it is necessary to recognise impairment of its investment in the associate. At each reporting date, the Group checks whether there is objective evidence that its investment in the associate has suffered impairment. In this case, the Group calculates the amount of the loss as the difference between the recoverable value of the associate and the carrying amount of the latter in its financial statements, recording said difference in the profit (loss) for the year, under the item "Group's share of the associate's result".

Upon loss of a significant influence over the associate, the Group evaluates and records the residual investment at fair value. The difference between the carrying amount of the investment at the date of the loss of significant influence and the fair value of the residual investment and of fees received is recorded in the statement of profit or loss..

Investments in other companies and available-for-sale financial assets

Investments in other companies, booked as non-current financial assets, which are not available-for-sale, are measured at cost less impairment since the fair value cannot be calculated reliably.

Definite life intangible assets

Definite life intangible assets are recorded under assets at their purchase cost when it is likely that use of the asset will generate future economic benefits and when the cost of the asset can be reliably calculated. Intangible assets acquired through business combinations are recognised at the fair value defined at the acquisition date, if the fair value can be reliably calculated. Intangible assets with a definite useful life are amortised on a straight-line basis over their estimated useful life. The useful life is reviewed on an annual basis and any changes, where necessary, are applied prospectively.

Development costs

Research costs are recognised in the statement of profit or loss at the time they are incurred.

Development costs incurred for a specific project are only capitalised when the Group can demonstrate the technical probability of completing the intangible asset so that it becomes available for use or for sale, its intention to complete the asset for use or for sale, how it will

generate future economic benefits, availability of technical, financial and other resources needed to complete development and its capacity to reliably assess the cost attributable to the asset during development.
While under development, the asset is tested for impairment on an annual basis. After initial recognition, development costs are assessed at cost less any amortisation or accrued impairment. Amortisation of the asset begins when development has been completed and the asset is ready for use. It is amortised according to the period in which it is expected that the related project will generate revenues for the Group. While the asset is still not in use, it will be subject to annual impairment testing.

Trademarks and Rights
This item relates to licence rights for marketing authorisations for specialist medicines and to trademarks for registration of pharmaceutical products. The purchase cost of trademarks and rights are amortised over the useful life of the acquired asset, normally 5 years for rights and 10 years for trademarks.

Other Intangible assets
This item refers to:

- The purchase of application software amortised over 5 years;
- Sales contracts entered into with customers and the list of hyperimmune plasma donors registered with the purchase method in the business combination of the US subsidiary KEDPLASMA LLC in the moment of control acquisiton of the subsidiary company Somerset Labs Inc. They are amortized over a period of time of 15 years;
- List of plasma donors registered with the purchase method at the time of acquisition of the centers in 2016 and 2017. They are amortized over a period of 5 years.

Impairment test
Intangible assets with an indefinite useful life and those still non available are tested for impairment at least once per year - on 31 December - both individually and at cash generating unit level, as more appropriate, and when there is evidence of impairment.
The other intangible assets are subject to verification, in order to detect any loss in value, if events or changes in the situation indicate that the carrying amount cannot be recovered. If there is an indication of this type and, in the event that the book value exceeds the recoverable value, the assets are written down to reflect their recoverable value. The recoverable amount of the intangible assets is represented by the greater of the net sale price ("fair value") and the value in use.
The value in use is calculated by discounting the expected future cash flows, using a pre-tax discount rate that reflects the current market estimate for the cost of money compared to time and the specific risks of the asset. For an asset that does not generate widely independent financial flows, the value in use is determined in relation to the cash-generating unit to which this asset belongs. Impairment losses are recorded in the income statement under amortization, depreciation and write-downs based on the destination to which the asset refers. These losses in value are restored if the reasons that generated them no longer exist.

Impairment of non-financial assets

At each reporting date, the Company assesses the existence of indicators of impairment of assets. In this case, or where an annual impairment test is required, the Company estimates the recoverable value. The recoverable value is the higher of the fair value of the asset or cash generating unit, net of sale costs, and its value in use. The recoverable value is determined for

each individual asset, except when said asset generates cash flows that are not sufficiently independent from those generated by other assets or asset groups. If the carrying amount of an asset is higher than its recoverable value, said asset has been impaired and is consequently written down to its recoverable value.
In determining the value in use, the Company discounts estimated future cash flows to the present value by using a pre-tax discount rate which reflects the market valuations of the present value of money and the specific risks of the asset. In calculating the fair value net of sale costs, account is taken of recent market transactions. If it is not possible to identify said transactions, an appropriate valuation model is used. These calculations are corroborated by the proper valuation multipliers, prices of listed shares for investees whose shares are traded on the market, and other available fair value indicators or using the discounted cash flow (DCF) method.
The Company bases its impairment test on detailed budgets and provisional calculations, drafted separately for each cash generating unit of the Company to which individual assets are allocated. These budgets and provisional calculations generally cover a period of three or more years.
Impairment of operating assets, including the impairment of inventories, is recorded in the statement of profit or loss under cost categories consistent with the use of the asset that recorded impairment. Fixed assets revalued previously are an exception, where the revaluation was accounted for in the consolidated statement of comprehensive income and classified as a revaluation reserve. In these cases, the impairment is, in turn, recorded in the consolidated statement of comprehensive income up to the amount of the previous revaluation.
For assets other than goodwill - and at each reporting date - the Company assesses the elimination (or reduction) of indicators of impairment that were previously recorded and, if these indicators exist, estimates the recoverable value. The value of an asset previously written down can only be written back if there are changes in the assumptions on which the calculation of the recoverable value was based, after the recognition of the latest impairment. The write-back cannot exceed the carrying amount which would have been determined, net of amortisation, if no impairment had been recorded in previous years. This write-back is booked to the statement of profit or loss except in the case that the fixed asset is accounted for at the revalued amount; in this case, the write-back is treated as a revaluation increase.

Other non-current financial assets and other non-current assets

These assets are valued according to the cost method, amortised by the effective discount rate method net of any impairment.
The amortised cost is calculated by taking into consideration all purchase discounts or bonuses, and includes commissions as an integral part of the effective interest rate and transaction costs.

Inventories

Inventories are assessed at the lower between the purchase and/or production cost, determined by the weighted average cost method, and the net realisable value. The estimated net realisable value includes the estimated sale price less costs estimated for completion and estimated sale costs. Raw materials and consumables are entered at purchase cost, inclusive of accessory charges. Work in progress, semi-finished and finished products are entered on the basis of directly attributable production costs and a portion of the indirect production costs incurred in the year and reasonably attributable to the products.
The value of inventories is adjusted, where necessary, through a provision for write-down that takes the factors of obsolescence into account.

Trade receivables

Trade receivables are normally recognised at fair value - in general corresponding to their nominal sum - and later measured at the amortised cost, written down in the event of impairment. In addition, they are adjusted to their presumed realisable value by allocation to a specific provision for adjustments.
Receivables in a currency other than the operating currency are recognised at the exchange rate valid on the date of the transaction, and then translated to the year-end exchange rate. Any translation gain or loss is recognised in the statement of profit or loss.
For nationwide receivables from public authorities characterised by an average repayment period of more than 12 months, an analytical time-discounting process was applied based on assumptions and estimates.

Other current assets and other financial assets

These are initially recognised at fair value and thereafter according to the amortised cost method.

A financial asset (or, where applicable, part of a financial asset or part of a group of similar financial assets) is eliminated from the financial statements when:

- The right to receive cash flows from the asset has ended;
- The Group retains the right to receive cash flows from the asset, but is contractually obliged to transfer these sums in full and without delay to a third party;
- The Group has transferred the right to receive cash flows from the asset and (a) has transferred substantially all asset ownership risks and rewards or (b) has not transferred substantially all asset risks and rewards but has transferred control of the asset.

Where the Group has transferred the right to receive cash flows from an asset but has not substantially transferred or retained all risks and rewards, or has not lost control of the asset, the asset is recorded in the Group financial statements to the extent of the Group's residual involvement in the asset. Residual involvement in the form of a guarantee on the transferred asset is assessed at the lower between the initial recognition value and the maximum payment the Group could be held to make.
In cases in which residual involvement is in the form of a put or call option on the transferred asset (including options settled in cash or similar), the extent of Group involvement corresponds to the amount of the transferred asset that the Group could buy back. Nevertheless, if a put option is issued on an asset measured at fair value (including options settled in cash or similar), the extent of the Group's residual involvement is limited to the lower between the fair value of the transferred asset and the option exercise price.

Cash and cash equivalents

Cash, cash equivalents and short-term deposits include cash on hand and demand or short-term deposits, the latter with an original maturity date of no more than three months.

Loans

All loans are initially recognized at the fair value of the sum received, net of accessory loan allocation charges. After initial recognition, loans are assessed at amortized cost using the effective interest rate method.
Any gain or loss is recognized in the statement of profit or loss when the liability has been settled, other than by the amortization process.
Payables due to bondholders were recognized at the fair value of the payment, net of accessory bond issue charges. After initial recognition, loans are assessed at amortized cost using the effective interest rate method.

A financial liability is removed when the obligation underlying the is extinguished or fulfilled.
In cases where an existing financial liability is replaced by another one of the same lender, under substantially different conditions, or when the conditions of an existing liability are substantially changed, such exchange or modification is treated as an accounting cancellation of the original liability and the recognition of a new liability, with recognition in the income statement of any differences between the book values.

Provisions for risks and charges

Provisions for risks and charges are made when the Group has to meet a current commitment (legal or implicit) deriving from a past event, when an outlay of resources is likely to meet that commitment and it is possible to perform a reliable estimate of the amount.
When the Group considers that a provision for risks and charges will be repaid in full or in part, e.g. in the case of risks covered by insurance policies, the indemnity is recorded separately in the balance sheet if, and only if, it is a near certainty. In this case, the cost of any provision is recognised in the statement of profit or loss net of amortisation recorded for the indemnity.
If time-discounting of the value of money is significant, the provisions are discounted at a pre-tax rate that reflects, where possible, the specific liability risks. When time discounting is applied, the increase in the provision due to the passing of time is recognised as a financial charge.

Liabilities for employee benefits

Post-employment benefits due to employees are divided, on the basis of the economic nature, into defined contribution or defined benefit plans. In defined contribution plans, the Company's legal or implicit obligation is limited to the amount of contributions to be paid: consequently the actuarial risk and investment risk are borne by the employee. In defined benefit plans, the Company's obligation consists of granting and ensuring the agreed benefits to employees: consequently the actuarial risk and investment risk are borne by the Company. Italian legislation (Art. 2120 of the Italian Civil Code) states that, as at the date on which each employee terminates his employment contract with the Company, he/she shall receive an indemnity known as an Employee Severance Indemnity, which is considered a defined benefit plan according to IAS 19. Calculation of this indemnity is based on certain items that make up the annual salary of the employee for each year of service (revalued as appropriate) and on the length of service. According to Italian civil law, this indemnity is reflected in the financial statements through a calculation method based on the indemnity matured for each employee as at the reporting date, and as if all employees had terminated their employment contract on that date. IASB's IFRIC considered the matter of the Italian employee severance indemnity and concluded that, in application of IAS 19, it has to be calculated according to the Projected Unit Credit Method (PUCM), in which the total payable for accrued benefits must reflect the expected date of resignation and must be time-discounted.
Effective as of 2007, the Group acknowledged the effects of the amendments introduced by the "2007 Financial Law" and subsequent decrees and regulations, relating to the allocation of amounts of Employee Severance Indemnity accrued from 1 January 2007. In particular, for the purposes of application of IAS 19, the new legislation changes, as of 1 January 2007, the nature of Employee Severance Indemnity from "defined benefit plan" to "defined contribution plan", with particular reference to companies with more than 50 employees.
Starting from 2012, actuarial gains and losses are booked to the Statement of profit or loss and other comprehensive income.
In addition to the TFR mentioned above, there is a defined benefit plan relating to the Hungarian HBP subsidiary that will be paid to employees (i) in part on the achievement of certain work-related thresholds at the company; (ii) partly on the retirement date.

The net commitment of the Group from defined benefit plans is calculated separately for each plan, estimating the amount of the future benefit accrued by the employee in exchange for services rendered in the current and previous financial years. This benefit is then discounted back to calculate the current value.
Actuarial assessment of these payables is assigned to an independent actuary.
The Group has no other defined benefit or defined contribution pension plans.

Financial instruments

Financial instruments are initially recognised at fair value and thereafter measured according to classification, as envisaged by IAS 39.
For financial assets, this treatment is divided into the following categories:

- Financial assets measured at fair value with changes recognised in the statement of profit or loss;
- Investments held to maturity;
- Loans and receivables;
- Available-for-sale financial assets.

With regard to financial liabilities, provision is made for just two categories:

- Financial liabilities measured at fair value with changes recognised in the statement of profit or loss;
- Liabilities recorded at the amortised cos.

The fair value calculation methods for such financial instruments, for accounting or reporting purposes, are summarised below according to the main financial instrument categories to which they are applied:

- Derivatives: suitable pricing models have been adopted on the basis of market interest rate values and exchange ratios;
- Receivables, payables and unlisted financial assets: for financial assets with maturity beyond one year, the discount cash flow method has been applied, i.e. time discounting of expected cash flows based on the current interest rates and credit ratings;
- Listed financial Instruments: the market value as at the date of reference is used.

Derivatives

The Group uses derivatives as currency forward contracts to hedge, respectively, its currency exchange risks and interest rate swaps, with the intention of hedging financial risks relating to changes in interest rates on existing medium/long-term debt.

In compliance with IAS 39, hedge accounting rules may only be applied to hedging derivatives if:

a) at the time of hedging, formal designation and documentation on the hedge exists;
b) it is envisaged that the hedge will be highly effective;
c) its effectiveness may be reliably measured; and
d) the hedge itself is highly effective in accounting periods other than those to which it is designated.

All derivatives are measured at fair value. When derivatives have characteristics for which hedge accounting is appropriate, the following accounting treatment is applied:

- Fair value hedge - if a financial derivative is designated as a hedge against exposure to changes in the current value of an asset or liability in the balance sheet that could affect the statement of profit or loss, gains or losses deriving from subsequent assessments of the current value of the hedge are recognised in the statement of profit or loss, as are gains or losses on the item hedged.

- Cash flow hedge - if a financial derivative is designated as a hedge against changes in the cash flows of an asset or liability in the balance sheet, or a transaction seen as highly likely and which could affect the statement of profit or loss, the effective portion of gains or losses on the financial instrument is recognised under shareholders' equity. Any accrued gains or losses are written-off from shareholders' equity and recognised in the statement of profit or loss in the period in which the hedge is applied. Hedge-related gains or losses, or on that part of the hedge which has become ineffective, are recognised in the statement of profit or loss when ineffectiveness is confirmed.

If the conditions for the application of hedge accounting are not met, any effects deriving from the fair value measurement of the derivative are recognised directly to the statement of profit or loss.

Non-current assets held for sale

Non-current assets held for sale rather than production purposes are classified under a specific item, "Non-Current assets held for sale", in accordance with IFRS 5 and recorded at the lower between Net Book Value and fair value less selling and distribution costs.

Revenues

Revenues are recognised to the extent to which it is likely that the economic benefits will be enjoyed by the Group and that the relative amount can be reliably determined, regardless of the date of collection. Revenues are measured at the fair value of the amount received or to be received, taking into account the payment terms defined in the contract and excluding tax and duties. In all sale contracts in which it is the primary debtor, the Group has entered into the same and is implementing the same on its own behalf, has discretionary power over pricing policies and is also exposed to inventory and credit risk.

Sales of goods

The revenue is recognized when the Company has transferred to the buyer all the significant risks and benefits connected to the asset ownership, generally on the date of delivery of the goods. The revenue is valued at the fair value of the amount received or to be received, net of returns and rebates, trade discounts and volume reductions.

Provision of services

The recognition of revenues for the provision of services is based on the stage of completion of servicing activities as at the reporting date, measured as a percentage with reference to different variables depending on the services provided and contracts stipulated with the customer. The provision of services not yet completed as at the reporting date is booked as 'long term contracts' under trade receivables. Any revenues invoiced as at the reporting date in excess of the amount accrued according to the stage of completion of the service is suspended under advances from customers and classified under trade payables. When the result of services cannot be reliably measured, the revenues are recognised to the extent to which it is considered that costs incurred can be recovered.

In the case of nationwide revenues from public authorities that are characterised by an average collection period of more than 12 months, an analytical time-discounting process was applied based on assumptions and estimates so as to determine the implicit financial component.

Interest income
For all financial instruments measured at amortised cost and interest bearing financial assets classified as available for sale, interest income is recognised using the effective interest rate, which is the rate that accurately discounts future revenues, estimated for the expected life of the financial instrument or for a shorter period, when necessary, with respect to the net carrying amount of the financial assets. Interest income is under financial income in the statement of profit or loss for the year.

Rental income
Rent resulting from investment property is recognised on a straight line basis for the duration of the rental agreements in place on the date of the financial statements and is classified under revenues, given their operational nature.

Government grants

Government grants are recognised when there is a reasonable certainty that they will be received and all related conditions are satisfied. Where government grants are related to a cost component (operating grants) they are recognised as revenues across the relevant financial years in proportion to the costs they are expected to offset. Where the grant is related to an asset (capital grants), the asset and the grant are recorded separately under assets and liabilities at par value and the release to the statement of profit or loss takes place progressively on a straight-line basis over the estimated useful life of the related asset.

Dividends

Dividend income is recorded when shareholders become entitled to receive payment, which occurs when the Shareholders' Meeting approves distribution.

Income taxes

Current taxes
These taxes reflect a realistic estimate of the tax burden, calculated by applying the regulations in force in countries in which the Kedrion Group operates. The current tax payable is recorded in the balance sheet, net of any prepaid taxes.
As regards the Parent Company, it should be noted that, from 2016, as a consolidating company together with the consolidating partner Sestant S.p.A., it exercised the option for the "national tax consolidation" as a consolidating company, as per the Articles 117-129 of Presidential Decree December 22, 1986 n. 917 (so-called TUIR), which makes it possible to determine the IRES tax on a taxable base corresponding to the algebraic sum of the positive and negative taxable income of the individual participating companies, after making some adjustments provided for by current legislation.
The economic relations, as well as the reciprocal responsibilities and obligations between the consolidating and consolidated, are defined in the "Group Regulations governing the application of the provisions on "National Consolidation"".
Consequently, the debt or credit for IRES current taxes of the Parent Company is classified as "Other payables" or "Other receivables". Furthermore, any accrued tax losses are transferred to the shareholder Sestant with the recognition of a consolidated tax income recognised in the income statement.

Deferred taxes

Deferred taxes are calculated on the timing differences existing as at the reporting date between the taxable values taken as reference for the assets and liabilities, and the values recorded in the financial statements.

Deferred tax liabilities are recognised on all taxable timing differences, except in the following cases:

- when the deferred tax liabilities derive from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and which, at the time of the transaction, has no effect either on the profit for the year calculated for accounting purposes or on the profit or loss calculated for tax purposes;
- with regard to taxable timing differences relating to investments in subsidiaries, associates and joint ventures, where the reversal of timing differences can be monitored and it is likely that this will not happen in the foreseeable future.

Deferred tax assets are recognised for all deductible timing differences - and for all tax assets and liabilities carried forward - to the extent that it is likely that future tax gains will exist and on which the deductible timing differences and tax assets and liabilities carried forward can be applied, with the exception of cases where:

- the deferred tax asset associated with deductible timing differences derives from the initial recognition of an asset or liability in a transaction that is not a business combination and which, at the time of the transaction, has no effect either on the profit for the year calculated for accounting purposes or on the profit or loss calculated for tax purposes;
- with regard to taxable timing differences associated with investments in subsidiaries and associates, deferred tax assets are recognised only to the extent to which it is likely that the deductible timing differences can be reversed in the near future and that there are sufficient tax profits on which the timing differences can be applied.

The amount of deferred tax assets to be recorded in the financial statements is reviewed at each year-end and reduced by the extent to which it is no longer likely that future tax gains will be available to allow the utilisation of all or part of the relevant tax credit. Deferred tax assets not recognised are reviewed annually at year-end and recognised at the extent to which it is likely that tax gains are sufficient to allow recovery of the deferred tax assets.

Deferred tax assets and liabilities are measured on the basis of tax rates expected to apply in the financial year in which such assets are realised or in which such liabilities are extinguished, taking into account the current tax rates and those issued or substantially in issue at the reporting date.

Deferred tax assets and liabilities are offset where a legal right exists to offset the current tax assets against current tax liabilities, and the deferred taxes relate to the same taxpayer and the same tax authority.

Income taxes on items recorded directly under shareholders' equity are recognised directly in shareholders' equity rather than in the statement of profit or loss.

Value added tax

Revenues, costs and assets are recognised net of value added tax (VAT) except where this tax is applied on the purchase of non-deductible goods or services; in this case, it is recorded as part of the purchase cost of the asset or part of the cost item recorded in the statement of profit or loss.

The net total of indirect taxes on purchases and sales that can be recovered from or paid to the tax authority is included in the financial statements under other current assets or liabilities as appropriate at the balance sheet date. The value added tax (VAT) connected to Public Entities' billing is subject to the split payment scheme, according to which the public body is obliged to pay

the supplier only the fee agreed upon while the VAT due must be credited by the public body in an appropriate current account bound to be acquired by the tax authorities.

6.4. COMMENTS ON THE MAIN ITEMS IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

6.4.1. PROPERTY, PLANT AND EQUIPMENT

The historical cost, accumulated depreciation and the net carrying amount of the item Property, plant and equipment as at 31 December 2017 and as at 31 December 2016 are provided in the table below:

(In thousands of Euro)	Land and buildings	Plant and equipment	Industrial and commercial equipment	Other assets	Assets under construction and advances	Total
COST						
Balance as at 31 December 2016	**87,293**	**180,669**	**18,097**	**21,578**	**84,252**	**391,889**
Reclassifications	1,712	1,981	1,903	(1,997)	(2,773)	826
Increases	1,841	4,986	822	1,818	59,332	68,799
Translation differences	(1,311)	(1,721)	(258)	(419)	(6,808)	(10,517)
Decreases	0	(804)	(152)	(44)	(10)	(1,010)
Balance as at 31 December 2017	**89,535**	**185,111**	**20,412**	**20,936**	**133,993**	**449,987**
DEPRECIATION AND IMPAIRMENT						
Balance as at 31 December 2016	**31,767**	**119,565**	**14,525**	**16,020**	**0**	**181,877**
Depreciation of the year	3,486	12,854	1,144	1,716	0	19,200
Write-downs	0	0	0	0	0	0
Disposals	0	(642)	(120)	(64)	0	(826)
Translation differences	(228)	(930)	(123)	(199)	0	(1,480)
Reclassifications	310	580	248	(1,137)	0	1
Balance as at 31 December 2017	**35,335**	**131,427**	**15,674**	**16,336**	**0**	**198,772**
CARRYING AMOUNTS AS OF 31.12.2017	**55,526**	**61,104**	**3,572**	**5,558**	**84,252**	**210,012**
CARRYING AMOUNTS AS OF 31.12.2017	**54,200**	**53,684**	**4,738**	**4,600**	**133,993**	**251,215**

Of which under finance lease:

(In thousands of Euro)	31.12.2017			31.12.2016		
	Historical cost	Accumulated depreciation	Net value	Historical cost	Accumulated depreciation	Net value
Buildings	3,303	571	2,733	2,668	244	2,423
Plant and equipment	97,370	70,470	26,901	100,760	67,590	33,170
Fittings	1,596	1,563	33	1,598	1,550	48
Other assets	9,255	7,782	1,472	8,593	7,463	1,131
TOTAL	**111,525**	**80,386**	**31,139**	**113,619**	**76,847**	**36,772**

During the year ended on 31 December 2017, Kedrion Group purchased plant, equipment and machineries for Euro 68,799 thousand. Among this, Euro 3,149 thousand are financed through financial lease that didn't affect current financial cash.
Increases from acquisitions mainly concern:

- **Melville plant (NY, USA)** for a total amount of Euro 54.1 million primarily relating to the refitting of Melville fractionation plant and new production (purification) line for the proprietary medicinal product RhoGAM;
- **Bolognana Plant (LU, Italy)** for a total of Euro 4.6 million, relating mainly to renovation and improvements to existing buildings and plants;
- **Sant'Antimo Plant (NA, Italy)** for a total of Euro 1.3 million, relating mainly to renovation and improvements to existing buildings and plants;
- **Godollo Plant (Hungary)** for a total of Euro 2.1 million, relating mainly to renovation and improvements to existing buildings and plants;
- **Plasma collection centres in Germany, Hungary and in the United States** for a total of Euro 21.1 million, including Euro 17.9 million (involving Euro 9.9 million regarding Goodwill as noted in the previous paragraph about "Business Combinations occurred in 2017") for the purchase made of three new US centres and for the advance payment of a further 8 US centres, Euro 0.9 million for the opening of two new centres in the US, Euro 0.5 million for the opening of a new Hungarian centre, and the remainder for works and improvements in the other centres;
- **Castelvecchio Pascoli (LU, Italy)** for a total of Euro 5.6 million, mainly regarding the KIg10 project (Euro 3.4 million) for the construction of a production facility for the new generation immunoglobulin, while the remainder refers to warehouse and offices renovation and improvements;
- **Other investments** for a total of Euro 4.2 million, mainly relating to investments in IT hardware and software, Euro 0.2 million relating to furniture for the new Milan's offices.

Depreciation for the period also includes Euro 2,126 thousand relating to the zeroing of the assets' value that, following the completion of the project to renovate Melville plant, will no longer be usable.

Over the past years the Kedrion Group has benefited from government grants on tangible assets pursuant to Italian Laws 488/92 and 388/00, totaling Euro 6,703 thousand and Euro 3,356 thousand respectively. These grants were provided on the basis of investments incurred and capitalised for Euro 12,184 thousands with regard to Italian Law 488/92 and for Euro 12,805 thousand with regard to Italian Law 388/00. In 2010, a "Program Agreements" contract was signed with the Italian Medicines Agency, on the basis of which 10% of investments made in the

Bolognana production plant over the 2007-2009 three-year period were financed, for a maximum of Euro 24,900 thousand. Total investments were equal to Euro 26,535 thousand and the grant contributed amounted to Euro 2,490 thousand. Tangible assets were recorded at their purchase price and the value of the grant was discounted under other current and non-current liabilities (for the portion exceeding 12 months). The portion relevant to the year was subsequently carried to the statement of profit or loss on a straight-line basis throughout the expected useful life of the asset concerned. As at 31 December 2017, deferred income was recorded for this benefit for a total of Euro 462 thousand.

The Hungarian subsidiary HUMAN BioPlazma has benefited in previous years from a grant for tangible assets totalling around Euro 897 thousand; the statement of financial position contains deferred income related to this grant for Euro 756 thousand as at 31 December 2017.

Tangible assets were recorded at their purchase price and the value of the tax receivable was discounted under other current and non-current liabilities (for the portion exceeding 12 months). The portion relevant to the year is carried to the statement of profit or loss on a straight-line basis throughout the expected useful life of the assets. As at 31 December 2017, the statement of financial position contains deferred income for this tax credit for Euro 557 thousand.

There are no restrictions on the ownership of property, plant and equipment used to guarantee liabilities and contractual commitments in place for the purchase of these types of assets.

6.4.2. INVESTMENT PROPERTY

The historical cost, accumulated depreciation and the net carrying amount of the item Investment property as at 31 December 2017 and as at 31 December 2016 are provided in the table below:

(In thousands of Euro)	Land and buildings
COST	
Balance as at 31 December 2016	**2.627**
Reclassifications	0
Increases	0
Translation differences	0
Decreases	0
Balance as at 31 December 2017	**2.627**
Depreciation and impairment	
Balance as at 31 December 2016	**182**
Depreciation of the year	59
Write-downs	0
Disposals	0
Translation differences	0
Reclassifications	0
Balance as at 31 December 2017	**241**
CARRYING AMOUNTS AS OF 31.12.2016	**2.445**
CARRYING AMOUNTS AS OF 31.12.2017	**2.396**

The lands classified under investment property, with specification of its fair value, are located in the following places:

- Castelvecchio Pascoli (LU) - historical cost Euro 73 thousand; fair value Euro 51 thousand;
- San Pietro in Campo (LU) - historical cost Euro 104 thousand; fair value Euro 453 thousand;
- Monsagrati (LU) - historical cost Euro 1,363 thousand; fair value Euro 1,733 thousand.

The buildings classified under investment property instead refer to:

- A residential apartment located in Monsagrati (LU) - residual value Euro 18 thousand; fair value Euro 35 thousand;
- A new industrial building located in Sant'Antimo (NA), with a residual value of Euro 827 thousand gross of additional purchase charges, and fair value of Euro 968 thousand.

The fair value of investment property is determined by using valuation models and observable market parameters, therefore under the fair value hierarchy according to IFRS 13, they are investment property at fair value of Level 2.

6.4.3. GOODWILL

Goodwill entered in the balance sheet is subject to annual impairment testing. Listed below are the carrying amounts - as at the reporting dates - of the item Goodwill entered in the consolidated financial statements as well as their allocation to specific cash generating units (CGU):

Carrying amount of consolidated goodwill (In thousands of Euro)	**31.12.2017**	**31.12.2016**
Plasma derivatives CGU goodwill - Kedrion Biopharma	34,511	39,264
Plasma derivatives CGU goodwill - Kedrion	149,417	149,417
Plasma CGU goodwill - USA	31,634	26,629
Plasma derivatives CGU goodwill – HUMAN BioPlazma	2,807	2,720
CGU Others goodwill	949	949
TOTAL	**219,318**	**218,979**

In the following table we summarize the changes during the period in the item under examination:

(In thousands of Euro)	**Balance at 31.12.2016**	**Reclassifications**	**Increases for Business Combination**	**Translation differences**	**Decreases**	**Balance at 31.12.2017**
Plasma derivatives CGU goodwill - Kedrion Biopharma	39,264	0	0	(4,753)	0	34,511
Plasma derivatives CGU goodwill - Kedrion	149,417	0	0	0	0	149,417
Plasma CGU goodwill - USA	26,629	(2,237)	9,938	(2,696)	0	31,634
Plasma derivatives CGU goodwill - HUMAN BioPlazma	2,720	0	0	87	0	2,807
CGU Others goodwill	949	0	0	0	0	949
TOTAL	**218,979**	**(2,237)**	**9,938**	**(7,362)**	**0**	**219,318**

The differences relative to CGU “plasma – USA” is due to the following:

- Increase deriving from the purchase of three new centers for Euro 9,938 thousand (USD 12.6 million);
- Reclassification for Euro (2,237) thousand following the definitive allocation of the price for the two centers purchased in 2016 for which a provisional allocation was made in the previous year;
- Translate differences per Euro (2.696) thousands.

PLASMA DERIVATIVES CGU GOODWILL - KEDRION BIOPHARMA INC.

In 2012, Kedrion Biopharma acquired the business unit related to medicinal product RhoGAM and a hyperimmune plasma collection centre, generating goodwill of Euro 39,264 thousand.
Goodwill allocated to the Kedrion Biopharma plasma derivatives CGU was subjected to impairment test and the carrying amount was compared with the recoverable amount calculated on the basis of the CGU value in use. The value in use calculation is based on discounted cash flow (DCF) model. Cash flows projections are derived from Kedrion Group consolidated business plan for the next five years (2017-2021). In order to determine the CGU value in use, cash flows projections over the next 5 years were discounted and then was added a terminal value. The terminal value represents the current value, at the last year of the projection of all subsequent cash flows calculated as perpetual income and was determined using long period growth rate (“g” rate) equal to 0%.
The discount interest rate applied to subsequent cash flows (WACC) is equal to 7.14%. Considering the value in use calculated no impairment has been recognised on the basis of the results of the impairment test and the Group did not write down the goodwill.
A sensitivity analysis was also performed on the key assumptions the recoverable amount is based on, such as growth rate changes equal to +/- 0.5% and WACC changes equal to +/- 0.5%. Directors believe that reasonable change in the key assumptions will not generate an excess of the carrying amount compared to the recoverable amount.

PLASMA DERIVATIVES CGU GOODWILL - KEDRION

In October 2006, the Group acquired a further 35.26% of Hardis S.p.A. shares, which added to the 64.74% already held, reaching a 100% investment. The purchase led to the recognition of goodwill in the consolidated financial statements as at 31 December 2006 of Euro 10,545 thousand. In 2007, Hardis S.p.A. was merged by takeover into the Parent Company Kedrion S.p.A. This transaction generated no effect on the consolidated financial statements.
The goodwill emerging from this business combination was allocated to a cash generating unit corresponding to the Parent Company Kedrion’s production and marketing of plasma derivatives. This allocation was due to the fact that the merged company, Hardis S.p.A., produces and distributes a wide range of products derived from human plasma, in a similar manner to Kedrion S.p.A.
In December 2006, Augeo Due S.p.A. purchased a 100% stake in Kedrion S.p.A. for an amount of 207,089 thousand Euro. This business combination generated a goodwill of Euro 138,873 thousand in the consolidated financial statements of Augeo Due S.p.A. as at 1 January 2007, drafted in accordance with IFRS 1 First-time adoption of International Financial Reporting Standards. Later, in March 2009, the incorporation, via a reverse merger, of the parent company Augeo Due S.p.A. into subsidiary Kedrion S.p.A. was completed. Goodwill arising from the consolidation difference, as at 1 January 2007, at the time of the first-time adoption of IFRS remained unchanged, given that the reverse merger in 2009 did not have any effect on the consolidated financial statements. The goodwill emerging via this business combination was - in this case as well - allocated to the cash flow generating unit corresponding to Kedrion’s plasma

derivative pharmaceuticals production and marketing activities, since it represented the additional estimated value of Kedrion's activities.

Goodwill allocated to the Kedrion plasma derivatives CGU was subject to an impairment test and the carrying amount was compared with the recoverable amount calculated on the basis of the fair value less costs to sell.
To calculate the fair value of the CGU, the market multiplier method was used as in prior years and, in particular, multipliers deriving from a basket of comparable companies pertaining to the same plasma derivatives segment, listed on capital markets in Europe and the United States, believing that the basket represents the "highest and best use" of the CGU assets.
The multiple adopted (19.83x), calculated on the basis of financial information and market capitalization of comparable companies included in the basket, was applied to the 2017 EBITDA of the CGU. This economic result was also confirmed in the budget for the financial year 2018, which was prepared and approved by the Board of Directors in December 2017. The result of the impairment test was also compared to the discounted CGU cash flows projections obtained from last approved business plans. This examination confirmed the results of the primary control test.

According to the hierarchy of fair value IFRS 13, it is a fair value measurement of Level 2. The impairment test carried out using this methodology - based on the application of multiples referring to a panel of comparables - provided reasonable support to confirm the carrying amount of goodwill allocated to the "Kedrion plasma derivatives" CGU.
A sensitivity analysis was also performed on the results applied to the market multiples. Even in this case the recoverable amounts remain higher than the carrying amounts. The Directors believe that even in case of any reasonable change in the key assumptions an excess of the carrying amount will not be generated compared to the recoverable amount.

PLASMA USA CGU GOODWILL

Goodwill relating to Haemopharm (merge with Kedrion Biopharma Inc. on 1 November 2016) and KEDPLASMA LLC, for a total of Euro 26,629 thousand, was allocated to the Plasma USA CGU, and - given that their core business is the collection and marketing of plasma - was subjected to a impairment test comparing the carrying amount with the recoverable value calculated on the basis of the CGU value in use.
The value in use calculation is based on discounted cash flow (DCF) model. Cash flows projections are derived from Kedrion Group consolidated business plan for the next five years (2017-2021). In order to determine the CGU value in use, cash flows projections over the next 4 years were discounted and added to the terminal value. The terminal value represents the current value, at the last year of the projection of all subsequent cash flows calculated as perpetual income and was determined using long period growth rate ("g" rate) equal to 0%.
The discount rate for the future cash flows (WACC) is 6.8%.
Considering the value in use calculated no impairment has been recognised on the basis of the results of the impairment test and the Group did not write down the goodwill.
A sensitivity analysis was also performed on the key assumptions the recoverable amount is based on, such as growth rate changes equal to +/- 0.5% and WACC changes equal to +/- 0.5%. Directors believe that reasonable changes in the key assumptions will not generate an excess the carrying amount compared to the recoverable amount.

PLASMA DERIVATIVES CGU GOODWILL - HUMAN BIOPLAZMA

On 31 December 2007, the Group acquired 100% of the share capital of Hungarian company HUMAN BioPlazma Kft, with a registered office in Budapest. This business combination led to

the recognition of goodwill, expressed in Hungarian Forint, amounting to 1,000,090 thousand, deriving from the fact that a higher value was paid for the acquisition than the value of assets and liabilities acquired, calculated at fair value in accordance with IFRS 3. The value of said goodwill at the exchange rate on 31 December 2015 was Euro 2,720 thousand. The acquired assets and liabilities were the subject of an assessment report drawn up by an independent company American Appraisal Hungary Co. Ltd.
The goodwill acquired as a result of this business combination was allocated to the cash generating unit corresponding to the production and marketing business of the acquired company, which operates in the plasma derivatives production and marketing segment. HUMAN BioPlazma has a fractionation plant near Budapest (Hungary) and owns six plasma collection centres. The aim of the acquisition was to increase the Group's production capacity, specifically as support for growth in foreign markets.
The value in use was calculated, as in previous years, by using the Discounted Cash Flow (DCF) method, i.e. by discounting the cash flows estimated from consolidated business plan of the Group, and relative to the 2017-2021 time period. In order to determine the value in use of the CGU, the discounted cash flows of the years of the explicit projection summed together with a terminal value were considered, assumed to be equal to the current value of the perpetual return of the cash flow generated in the last year subject to the explicit projection, considering long term growth rate (“g” rate) equal to 0%.
The discounting rate applied to the prospective cash flows (WACC) is equal to 8.35%, lower than the previous year. The key assumptions and variables used do not differ from the previous year. The calculation of the value in use on the basis of these parameters did not involve any impairment of goodwill. A sensitivity analysis was also performed on the results applied to the recoverable amount (such as changes of both long term growth rate and WACC equal to +/- 0.5%).The Directors believe that any reasonable change in the key assumptions will not generate an excess of the carrying amount compared to the recoverable amount.

CGU OTHERS GOODWILL

Kedrion Group decided to represent in CGU “Others” all goodwill related to minor activites for Euro 949 thousand.
In 2007, the purchase of a business unit was completed, consisting of a hydroelectric control unit including accessories, for the generation of electricity. This acquisition involved the recording of goodwill for Euro 215 thousand.
In 2005, the Group established a marketing company, Kedrion International GmbH, with registered office in Vienna (Austria), jointly with a third party from outside the group. The Group’s share of the investment was 30% of the share capital. During the course of 2006, the Group increased its investment in the company by acquiring a further 70%, thus achieving total control. In the transaction the Group recognised goodwill of Euro 458 thousand to the vendor.
Subsequently, on 31 December 2010, a contract was signed for the purchase of 95% of the shares of Kedrion Portugal Unipessoal Lda and a purchase option for the remaining 5%. This acquisition involved the recording of goodwill for Euro 165 thousand.
On 18 November 2013 Kedrion S.p.A. acquired 51% of Kedrion Brasil from a local partner – FBM Farma Industria Farmaceutica LTDA. This acquisition involved the recording of goodwill for Euro 43 thousand.
The goodwill related to KEDPLASMA GmbH, equal to Euro 67 thousand, refers to plasma collection and sale in the German market.

6.4.4. DEFINITE LIFE INTANGIBLE ASSETS

The historical cost, accumulated amortisation and the net carrying amount of the item Definite life intangible assets as at 31 December 2017 and as at 31 December 2016 are provided in the table below:

(In thousands of Euro)	Development costs	Trademarks and Rights	Assets under construction	Others	Total
COST					
Balance as at 31 December 2016	**12,160**	**49,776**	**11,515**	**48,461**	**121,912**
Reclassifications	227	4,078	(4,545)	1,654	1,414
Increases	0	752	11,413	2,928	15,093
Translation differences	(10)	(4,268)	(1,180)	(3,819)	(9,277)
Decreases	0	(165)	(87)	(2)	(254)
Balance as at 31 December 2017	**12,377**	**50,173**	**17,116**	**49,222**	**128,888**
AMMORTISATION AND IMPAIRMENT					
Balance as at 31 December 2016	**12,132**	**24,064**	**0**	**27,386**	**63,582**
Amortisation for the year	59	2,619	0	3,957	6,635
Write-downs	0	0	0	0	0
Disposals	0	(165)	0	0	(165)
Translation differences	(10)	(1,316)	0	(1,872)	(3,198)
Reclassifications	0	0	0	0	0
Balance as at 31 December 2017	**12,181**	**25,202**	**0**	**29,471**	**66,854**
CARRYING AMOUNTS AS OF 31.12.2016	**28**	**25,712**	**11,515**	**21,075**	**58,330**
CARRYING AMOUNTS AS OF 31.12.2017	**196**	**24,971**	**17,116**	**19,751**	**62,034**

As at 31 December 2017, Trademarks and Rights totaled Euro 24,971 thousand and was made up of the following items specific to the commodity sector:

(In thousands of Euro)	31.12.2017	31.12.2016
Rights	12,186	11,440
Trademarks	12,785	14,272
RIGHTS AND TREADKMARKS	**24,971**	**25,712**

Rights refers to patent rights on the proprietary medicinal product RhoGAM which was acquired during 2012 and measured at fair value at the time of PPA, while considering a 5% royalty on expected turnover for a period of 15 years, and licences for Marketing Authorisations of other proprietary medicinal products.

Trademarks primarily regard the “RhoGAM” trademark, with a residual value of Euro 8,580 thousand.

The item assets under construction is mainly composed of:

- Costs incurred for obtaining AIC for new medicinal products for Euro 4.5 million;
- Advances paid for the acquisition of new centers for Euro 8.9 million;

- For the remaining part, mainly from software.

The management carried out the necessary verifications of recoverability without identifying any indicators of impairment relating to this item.

The item Other intangibles mainly includes the customer lists relating to the acquisition of RhoGAM for Euro 11,426 thousand, application software programs for Euro 6,082 thousand and the list of hyperimmune plasma donors of the subsidiary KEDPLASMA LLC for Euro 2,243 thousand.

6.4.5. INVESTMENTS IN ASSOCIATES

The details of the investments in associates at December 31, 2017 and December 31, 2016 are shown below.

(In thousands of Euro)	31.12.2017	31.12.2016
Investment in the associate Kirov Plasma	331	0
INVESTMENTS IN ASSOCIATES	**331**	**0**

On 23 March 2017 a new company named Kirov Plasma was set up in Russia. Kedrion S.p.A. has the role of technological partner and holds 25% of the joint venture. The Italian-Russian partnership was born with the aim of completing the construction of a production plant in Kirov. In the 2017 financial year the company is in the start-up phase, for this reason it is not considered significant to present the data of this company.

6.4.6. INVESTMENTS IN OTHER COMPANIES

A breakdown of investments in other companies as at 31 December 2017 and as at 31 December 2016 is provided below.

(In thousands of Euro)	31.12.2017	31.12.2016
Other investments	2,095	2,382
INVESTMENTS IN OTHER COMPANIES	**2,095**	**2,382**

Other equity investments of Euro 2,084 thousand are represented by the 4.3% stake held by the subsidiary Kedrion Biopharma in the US research company Entegrion Inc., a partnership under which a project considered strategic for the Group is currently being developed on behalf of the US Department of Defence (DoD) for the creation of a blood derivative product that can be used in emergency situations in the military context.

Investments in other companies, booked as non-current financial assets which are not available-for-sale, are measured at cost less impairment since the fair value cannot be calculated reliably. There were no impairment losses as at 31 December 2017.

6.4.7. OTHER NON-CURRENT FINANCIAL ASSETS

(In thousands of Euro)	31.12.2017	31.12.2016
Guarantee deposits	1,090	800
Start-up financing	8,617	5,739
Financial prepayments	1,149	0
OTHER NON-CURRENT FINANCIAL ASSETS	**10,856**	**6,539**

Guarantee deposits are mainly associated with lease agreements for plasma collection centres and offices.
Start-up financing of Euro 8,617 thousand was granted by the US subsidiary KEDPLASMA LLC. to Immunotek to finance the opening of new US plasma collection centres, and will be repaid through a reduction in the purchase price of plasma collected.
The financial prepayments refer to prepaid bank expenses relating to credit lines available to the Group, whose availability will continue in the next financial years.

6.4.8. DEFERRED TAX ASSETS

The table below shows the composition of deferred tax assets and liabilities as at 31 December 2017 and as at 31 December 2016

(in thousands of Euro)	31.12.2017	31.12.2016
Deferred tax assets	7,949	9,453
Deferred tax liabilities	(1,860)	(745)
TOTAL NET DEFERRED TAX ASSETS/(LIABILITIES)	**6,089**	**8,708**

The table below provides a breakdown of deferred tax assets as at 31 December 2017 and 31 December 2016:

(in thousands of Euro)	Taxable amount 2016	Total deferred tax assets	Increase	Decrease	Taxable amount IRES	Taxable amount IRAP	Deferred tax assets IRES	Deferred tax assets IRAP	Total deferred tax assets
Trademarks and goodwill amortisation	159	44	0	17	142	142	34	6	40
Unpaid directors' fees	18	4	15	17	16	0	4	0	4
Unpaid membership fees	1	0	12	1	12	0	3	0	3
Unpaid interest expense	5	1	979	0	984	0	236	0	236
Unpaid tax	0	0	2	0	2	0	0	0	0
Currency adjustment	57	14	599	57	599	0	144	0	144
Risk provisions	4245	1,184	36	3,647	634	634	152	25	177
Intercompany profit eliminated	14,302	3,990	0	1868	12,434	12,434	2,984	485	3,469
TFR (employee severance indemnity) Reserve (IAS 19)	343	82	0	9	334	0	80	0	80
Hedging Derivatives	1,409	338	0	553	856	0	205	0	205
Others relevant values	934	228	104	579	459	0	120	0	120
TOTAL	**21,473**	**5,885**	**1,747**	**6,748**	**16,472**	**13,210**	**3,963**	**515**	**4,478**
Tax credit of the subsidiary HUMAN BioPlazma	3,566	3,566	0	95	3,471	0	3,471	0	3,471
TOTAL DEFERRED TAX ASSETS							**8,710**	**576**	**7,949**

The table below provides a breakdown of deferred tax liabilities as at 31 December 2017 and 31 December 2016:

(in thousands of Euro)	Taxable amount 2016	Total deferred tax liabilities	Increase	Decrease	Taxable amount IRES	Taxable amount IRAP	Deferred tax liabilities IRES	Deferred tax liabilities IRAP	Total deferred tax liabilities
Deferred taxes in the subsidiary Kedrion Biopharma	746	298	2,330	0	3,076	0	1,230	0	1,230
Deferred taxes in the subsidiary HUMAN BioPlazma	1,526	289,94	0	467	1,059	0	201	0	201
Intercompany profit eliminated	654	157	1,132	0	1,786	0	429	0	429
TOTAL DEFERRED TAX LIABILITIES	**2,926**	**745**	**3,462**	**467**	**5,921**	**0**	**1,860**	**0**	**1,860**
NET IMPACT ON SHAREHOLDERS' EQUITY									**6,089**

Deferred taxes include, inter alia, the tax credit, with a residual value of Euro 3,471 thousand as at 31 December 2017, accrued on investments made by the Hungarian subsidiary Human Bioplazma, which may be used to reduce 80% of tax due over a period of 10 years.
There are no deferred taxes on undivided profits of subsidiaries or other temporary differences that may originate.
The Group has assessed the recoverability of the net deferred tax assets recorded.

6.4.9. OTHER NON-CURRENT ASSETS

The table below provides a breakdown of other non-current assets as at 31 December 2017 and as at 31 December 2016:

(in thousands of Euro)	31.12.2017	31.12.2016
Prepaid expenses	356	442
Tax credit	258	673
Other non-current assets	41	44
OTHER NON-CURRENT ASSETS	**655**	**1,159**

The item Prepaid expenses includes the non-current portion of prepaid expenses relating primarily to the rights of renewal of Marketing Authorisations. The tax credit was accrued on investments made in the second half of 2015, and can be used for offsetting, over three years, in equal amounts, starting from the second tax period following the realisation of the investment.

6.4.10. INVENTORIES

The table below provides a breakdown of inventories as at 31 December 2017 and as at 31 December 2016:

(in thousands of Euro)	31.12.2017	31.12.2016
Raw materials and consumables	74,910	64,173
Work in progress	107,887	136,357
Finished products and goods for resale	97,383	80,350
INVENTORIES	**280,180**	**280,880**

Inventory is basically stable in respect of the previous year even if at different stages depending on production levels. The value of inventories is stated net of a provision for doubtful accounts of Euro 3,098 thousand, of which Euro 2,393 thousand relating to inventories at Melville plant and Euro 649 thousand relating to inventories of KEDPLASMA GmbH.
In relation to the shutdown of Melville plant, the total amount of direct and indirect write-downs made on products under construction amount to Euro 12 million.

6.4.11. TRADE RECEIVABLES

The table below provides a breakdown of trade receivables as at 31 December 2017 and as at 31 December 2016:

(in thousands of Euro)	31.12.2017	31.12.2016
Receivables due from customers	112,659	119,755
Receivables accrued on services	15,310	16,301
TRADE RECEIVABLES	**127,969**	**136,056**

For the terms and conditions relating to receivables from related parties, reference should be made to Paragraph 6.6.2.

Trade receivables are non-interest bearing and normally have a contractual maturity of between 45 and 120 days. In 2017, receivables from customers decreased by Euro 8,087 thousand. This decrease is partly due to the decrease in turnover and an improvement in collection times.
The adjustment of receivables due from foreign customers at the precise exchange rate on 31 December 2017 led to the recognition of an unrealized exchange rate loss of Euro 596 thousand.

With regard to non-performing receivables for which recoverability is doubtful, a specific bad debt provision has been set up, totalling Euro 4,428 thousand; this is deemed consistent with the doubtful accounts known at year-end. Utilization of the year relates to settlement agreements with some customers on long-term positions.
The table below provides a breakdown of changes in the bad debt provision for the year ended 31 December 2017:

(in thousands of Euro)	For trade receivables	For default interest	Total
Balance as at 1 January 2017	**6,379**	**717**	**7,097**
Utilisation in the year	(3,390)	(414)	(3,794)
Allocations for the year	1,439	0	1,439
Balance as at 31 December 2017	**4,428**	**313**	**4,741**

The provision for default interest relates to receivables for default interest which, in accordance with regulations in force, the Group invoices to national public authorities. The recovery of these receivables is deemed doubtful in view of the historical trend of their effective recovery.

6.4.12. CURRENT TAX RECEIVABLES

The table below provides a breakdown of current tax receivables as at 31 December 2017 and 31 December 2016:

(in thousands of Euro)	31.12.2017	31.12.2016
Foreign taxes	2,589	4,036
IRES - IRAP	4,648	5,212
CURRENT TAX RECEIVABLES	**7,237**	**9,248**

Receivables concern the surplus of payments on account made by Kedrion S.p.A. and by foreign subsidiaries Kedrion Biopharma Inc., Kedrion Mexicana and KEDPLASMA GmbH.

6.4.13. OTHER CURRENT ASSETS

The table below provides a breakdown of other current assets as at 31 December 2017 and as at 31 December 2016:

(in thousands of Euro)	31.12.2017	31.12.2016
Receivables from employees	466	197
Social security receivables	388	186
Other receivables	7,939	3,476
Advances on other receivables	(511)	(439)
Sundry	106	234
VAT and other tax receivables	24,457	18,214
Insurance	798	108
Fees for renewal of marketing authorisations	52	40
Costs pertaining to subsequent years	3,134	8,732
OTHER CURRENT ASSETS	**36,829**	**30,748**

These other current assets are considered recoverable and, as a result, were not subject to value adjustments.

The increase in the item "Other receivables" is mainly due to the recognition of the income from the fiscal consolidation relating to the transfer of the tax loss made in the year by the Parent Company of Euro 3,898 to the shareholder Sestant S.p.A. following the adhesion to the national fiscal consolidation for the 2016-2018 three-year period. On that occasion, the Group regulations governing the application of the provisions concerning national consolidation was delivered.

Other receivables also include receivables accrued from the Italian Medicines Agency (AIFA) for Euro 1,153 thousand for the recognized contribution on some research projects and on investments made during the three-year period 2007-2009 on the Bolognana plant and for some refunds due to the excess fees paid to the Agency and to the Ministry of Education, University and Research for Euro 1,172 thousand for some research projects.

The increase in VAT credits is mainly related to Kedrion S.p.A. either as a result of the investments made either the effects of billing to the public administration through the so-called "split payment", to the Hungarian subsidiary and to the VAT credits of KEDPLASMA GmbH; the other tax receivables relate to the credit accrued by Kedrion on the research and development activities carried out in 2017 equal to Euro 4,458 thousand.

Costs related to future periods relate primarily to down payments of the next period.

6.4.14. OTHER CURRENT FINANCIAL ASSETS

(in thousands of Euro)	31.12.2017	31.12.2016
Financial deferrals	358	0
Other financial assets	206	111
OTHER CURRENT FINANCIAL ASSETS	**564**	**111**

The item Other financial assets shows the interest accrued by the subsidiary KEDPLASMA LLC on the loan granted to Immunotek Biocenters LLC for the new plasma collection centers' opening for Euro 184 thousand and short-term guarantee deposits for Euro 12 thousand.

6.4.15. CASH AND CASH EQUIVALENTS

The table below provides a breakdown of the item as at 31 December 2017 and 2016:

(in thousands of Euro)	31.12.2017	31.12.2016
Bank and postal deposits	104,402	66,338
Cash at bank and on hand	120	172
CASH AND CASH EQUIVALENTS	**104.522**	**66.510**

6.4.16. ASSETS HELD FOR SALE

On 28 December 2016, an agreement was reached to sell to Biomat USA Inc. six plasma centers property of KEDPLASMA LLC with a simultaneous payment of an advance of USD 15 million. This agreement, which provides a total amount of Dollars 47.1 million, was finalized on 28 February 2017 with the delivery of the six centers and the collection of the balance. For this reason, the assets held for disposal as at 31 December 2017 amounted to zero.

6.4.17. CAPITAL AND RESERVES

The share capital of Kedrion S.p.A. amounts to Euro 55,186,279 thousand; it is fully paid-up and is composed of 55,186,279 shares each with a par value of 1 Euro. Following the reverse merger of Kedrion Group S.p.A. and the share capital increase subscribed by Sestant S.p.A., Sestant Internazionale S.p.A. holds 69.38% of the shares, FSI Investimenti S.p.A. holds 25.06% and Sestant S.p.A. holds 5.56%.

Changes in consolidated shareholders' equity during the year ended 31 December 2017 therefore refer to:

- The distribution of dividends to shareholders for Euro 3,200 thousand;
- The carrying forward of the remaining comprehensive income as at 31 December 2016;
- The change in the translation reserve for Euro 25,734 thousand;
- The reserve for hedging financial instruments entered as a result of the stipulation of some Interest Rate Swap contracts to hedge the interest rate risk on existing loans for Euro 421 thousand;
- The IAS 19 reserve for Euro 7 thousand.

The item "Other reserves" is composed as follows:

- The reserve of payments for future capital increases of Euro 68,883 thousand, made in 2009 by the shareholders via waiver of their financial receivable including interest accrued up to the effective date of the reverse merger;
- The capital account reserve created in 2012 by the shareholders Sestant and Investitori Associati IV via waiver of a financial receivable of Euro 5,000 thousand;
- The consolidation reserve deriving from the contribution of Kedrion shares to the Kedrion Group;
- The merger surplus deriving from the reverse merger of Kedrion Group S.p.A. in Kedrion S.p.A. occurred in 2014 for Euro 23,840 thousand.

Shareholders' equity attributable to non-controlling interests amounts to Euro 850 thousand as at 31 December 2017 and regards the non-controlling interests, equal to 40%, held by Medici Pharma S.A.P.I. de C.V in Kedrion Mexicana, equal to 49% held by FBM Farma Industria Farmaceutica LTDA in Kedrion Brasil, and equal to 40% held respectively by Betaphar Ilaç. San. Ve Tic. A.Ş. for 25% and by Mahmut Arslan for the remaining 15% in Kedrion Betaphar.

Reconciliation of income for the year and shareholders' equity

(in thousands of Euro)	Shareholders' Equity 2016	Net income 2017	OCI 2017	Other changes in Shareholders' Equity 2017	Shareholders' Equity 2017
Kedrion S.p.A. Financial Statements	**279,682**	**5,104**	**428**	**(3,200)**	**282,014**
Intercompany distribution of dividends	(8,374)	(14,545)	0	0	(22,919)
Profit after establishment of Kedrion Biopharma Inc. (2011)	111,265	9,366	0	0	120,631
Profit after establishment of Kedrion International (2006)	(2,825)	1,635	0	0	(1,190)
Profit after acquisition of HUMAN BioPlazma (2007)	8,414	2,096	0	0	10,510
Profit after establishment of Kedrion Mexicana (2008)	12,187	1,677	0	0	13,864
Profit after acquisition of Kedrion Brasil (2013)	(294)	(112)	0	0	(406)
Profit after establishment of Kedrion India (2013)	(704)	(713)	0	0	(1,417)
Profit after establishment of Kedrion Colombia (2015)	30	102	0	0	132
Profit after establishment of Kedrion Betaphar (2015)	(220)	(10)	0	0	(230)
Profit after establishment of KEDPLASMA GmbH (2008)	991	(205)	0	0	786
Profit after acquisition of Kedrion Portugal (2010)	55	108	0	0	163
Profit after establishment of Kedrion Swiss (2008)	(51)	(254)	0	0	(305)
Derecognition of profit on inventories	2,640	1,198	0	0	3,838
Other intercompany profit eliminated	(29,232)	(259)	0	0	(29,491)
Other reserves	17,912	0	(25,734)	0	(7,822)
GROUP TOTAL	**391,476**	**5,188**	**(25,306)**	**(3,200)**	**368,158**
Portion attributable to non-controlling interests	2,517	1,003	(316)	(2,354)	850
TOTAL CONSOLIDATED FINANCIAL STATEMENTS	**393,993**	**6,191**	**(25,622)**	**(5,554)**	**369,008**

Dividends paid and proposed		
(in thousands of Euro)	31.12.2017	31.12.2016
Paid during the year	3,849	5,449
Proposed for approval by the Shareholders' meeting(*)	4,849	3,200

(*) Not recognised as liabilities as at 31 December.

Dividends paid during 2017 are different from those submitted for shareholders meeting because of non-paid share.

Below information is provided relating to subsidiaries with significant non-controlling interests:

Non-controlling interests held by minority shareholders			
Company Name	Registered office	2017	2016
Kedrion Mexicana	Mexico	40%	40%
Kedrion Brasil	Brazil	49%	49%
Kedrion Betaphar	Turkey	40%	40%

The financial information of these subsidiaries is shown below. This information is based on the financial statement balances before intercompany netting.

Statement of profit or loss	Kedrion Mexicana		Kedrion Brasil		Kedrion Betaphar	
(in thousands of Euro)	2017	2016	2017	2016	2017	2016
Revenues from sales and services	25,072	24,860	153	726	1204	241
Cost of sales	(18,614)	(17,882)	(122)	(672)	(900)	(241)
GROSS MARGIN	**6,458**	**6,978**	**31**	**54**	**304**	**0**
Other income	1	0	114	23	124	42
General and administrative expenses	(608)	(598)	(282)	(211)	(274)	(196)
Sales and marketing expenses	(744)	(759)	0	0	(14)	(12)
Research and development costs	0	0	0	0	0	0
Other operating costs	(251)	(253)	0	0	0	0
OPERATING INCOME	**4,856**	**5,368**	**(137)**	**(134)**	**140**	**(166)**
Financial expenses	(1,209)	(1,137)	(97)	(43)	(209)	(94)
Financial income	418	103	14	21	52	40
INCOME BEFORE TAXES	**4,065**	**4,334**	**(220)**	**(156)**	**(17)**	**(220)**
Income taxes	(1,269)	(1,335)	0	0	0	0
NET INCOME/(LOSS) FOR THE PERIOD	**2,796**	**2,999**	**(220)**	**(156)**	**(17)**	**(220)**
Total comprehensive income/(loss) net of taxes	**2,796**	**2,999**	**(220)**	**(156)**	**(17)**	**(220)**
Attributable to non-controlling interests	1,118	1,200	(108)	(76)	(6)	(87)
Dividends paid to non-controlling interests	2,354	1,170	0	0	0	

Statement of financial position	Kedrion Mexicana		Kedrion Brasil		Kedrion Betaphar	
(In thousands of Euro)	2017	2016	2017	2016	2017	2016
Property, plant and equipment and other non-current financial assets	139	116	12	15	447	430
Inventories	5,584	5,611	1	30	10	198
Trade receivables and other assets	6,747	5,509	87	201	105	53
Cash and cash equivalents	3,446	1,955	20	22	464	76
Financial liabilities	0	0	(237)	(32)	(782)	(588)
Trade payables and other payables	(13,210)	(8,606)	(17)	(100)	(293)	(209)
Loans and financing and liabilities for deferred taxes (non-current taxes)	0	38	(287)	(394)	0	0
SHAREHOLDERS' EQUITY	**2,706**	**4,623**	**(422)**	**(257)**	**(48)**	**(40)**
Attributable to:						
Equity holders of the Parent	1,631	1,980	(217)	(146)	(29)	(26)
Non-controlling interests	1,075	2,643	(205)	(111)	(19)	(14)

6.4.18. MEDIUM/LONG-TERM DEBT

The item Medium/long-term debt includes the non-current portion (over 12 months) of bank loans, financial payables due to bondholders and payables to other lenders for loans provided for research and to leasing companies for the purchase of tangible assets.
The table below provides a breakdown of this item as at 31 December 2017, with a specification of the total loan and of the current portion (classified in the consolidated statement of financial position under the item “current portion of medium/long-term debt”):

MEDIUM/LONG-TERM DEBT	2017		2016	
(In thousands of Euro)	31.12.2017	Of which current portion	31.12.2016	Of which current portion
Permitted Indebtedness BPER (Kedrion S.p.A.)	282	282	1,123	840
Amortizing Term Loan Cariparma, Unicredit and Banca Popolare di Milano (Kedrion S.p.A.)	0	0	29,352	3,100
Revolving Credit Facility Mediobanca, Banca IMI and Natixis (Kedrion S.p.A.)	100,000	0	157,619	0
Amortizing Term Loan Unicredit (Kedrion Biopharma Inc.)	0	0	15,720	7,905
Loan FBM Industria Farmaceutica (Kedrion Brasil Ltda)	189	189	128	0
Kedrion Betaphar Loan	80	0	0	0
KEDPLASMA LLC Loan	0	0	190	16
Total medium/long-term debt	**100,551**	**471**	**204,132**	**11,861**
Less current portion	(471)		(11,861)	
NON-CURRENT PORTION OF MEDIUM/LONG-TERM DEBT	**100,080**		**192,271**	
Payables to leasing companies	17,313	6,565	21,906	6,995
Less current portion	(6,565)		(6,995)	
NET PAYABLES TO LEASING COMPANIES	**10,748**		**14,911**	
Old bond (Kedrion S.p.A.)	57,999	0	148,375	0
Less current portion	0		0	
New bond (Kedrion S.p.A.)	343,105		0	
Less current portion		0		0
NET PAYABLES TO BONDHOLDERS	**401,104**		**148,375**	
TOTAL CURRENT PORTION		**7,036**		**18,856**
MEDIUM/LONG-TERM DEBT	**511,932**		**355,557**	

As at 31 December 2017, medium/long-term debt - broken down by year of maturity and after the amortised cost effect - was as follows:

Medium/Long Term Loan as at 31.12.2017					
(In thousands of Euro)	Payables to bondholders	Ministry for Education, Universities and Research (MIUR)	Payables for leased assets	Financial liabilities	Total medium/long-term debt
Within 12 months	0	0	6,565	471	7,036
Within 24 months	58,204	0	5,946	80	64,230
Within 36 months	0	0	2,933	0	2,933
Within 48 months	0	0	1,429	0	1,429
Within 60 months	350,000	0	440	100,000	450,440
Over 60 months	0	0	0	0	0
TOTAL LOANS	**408,204**	**0**	**17,313**	**100,551**	**576,068**
Less current portion	0	0	6,565	471	7,036
TOTAL MEDIUM/LONG-TERM DEBT	**408,204**	**0**	**10,748**	**100,080**	**519,032**

The table below provides information on the loans granted to the Group:

Description	Maturity	Interest rate	Balance outstanding as at 31.12.2017	Due within 12 months	Due within 5 years	Due beyond 5 years
Banca Popolare Emilia Romagna	27.04.2018	Average Euribor 3m+ 1,2%	282	282	0	0
Betaphar Loan	23.05.2019	No Interests	80	0	80	0
FBM Industria Farmaceutica	30.09.2017	Selic + 2,00%	189	189	0	0
Revolving Credit Facility	22.04.2022	Euribor+1,75%	100,000	0	100,000	0
Bonds	24.04.2019	4,625%	58,204	0	58,204	0
Bonds	12.07.2022	3%	350,000	0	350,000	0

With respect to the credit facilities indicated above and those repaid in 2017, interest expense accrued for an approximate total of Euro13,700 thousand.

In July, Kedrion issued a new Euro 350 million bond with a maturity of 5 years, placed with leading international investors and listed on the Irish Stock Exchange. The bond was issued below par at a price of 99.43% with a coupon of 3%, for a yield of 3.125%. The proceeds of this new issue were partially used to repurchase, through tender offer, Euro 91 million of the remaining 158 million of the 4.625% coupon bond maturing in April 2019.
In the context of this refinancing, Kedrion also extended three years from April 2019 to April 2022 the maturity of the Euro 158 million Revolving Credit Facility granted in 2015 by Mediobanca,

Banca IMI and Natixis to finance the repayment of Euro 150 million of the Bond maturing in 2019. The line is used for Euro 100 million at 31 December 2017.
During the year, the Group repaid in advance the Euro 90 million of the Amortizing Term Loan maturing in September 2021 granted by Cariparma, Unicredit and Banca Popolare di Milano and a total of USD 32.5 million of bank loans granted by Unicredit to the US subsidiary Kedrion Biopharma Inc. to finance investments at Melville plant.
In addition, the KEDPLASMA LLC loan of Euro 250 thousand has been paid off, it was granted by the owner of the building in which a US plasma collection center operates to finance improvements to the building itself.
In December, Kedrion S.p.A. also signed a new Euro 60 million revolving credit facility with Cariparma and Unicredit, maturing in December 2021, which has not yet been used at year end.
The FBM Industria Farmaceutica Ltda loan was disbursed by the minority shareholder to the subsidiary Kedrion Brasil to finance the start-up of the activities; the annual interest accrues at the Selic rate plus a spread of 2%.

Bank loan agreements and Company's bond issues require compliance with financial covenants. With regard to the former, the financial covenants include the obligation for the Company to comply with certain levels of financial indices. The main ones relate the Group's net debt to consolidated profitability (Leverage Ratio) and consolidated profitability with financial charges (Interest Cover Ratio).
The bond issues include the obligation for the Company to comply with certain debt limits of the Group companies that do not guarantee the issue (so-called Priority Indebtedness) and to take on additional debt if not in compliance with the Fixed Charge Cover Ratio.
The Company monitors these Covenants at each calculation date and was in full compliance with them at 31 December 2017.

Payables to leasing companies include contracts stipulated in the financial year ended on 31 December 2017 for a total of Euro 2,540 thousand to finance the investments made. The interest rates applied on these loans are in line with those of the market. For commitments on financial risks, see note 6.6.4.

The table below shows the changes required by IAS 7 with changes in liabilities related to financing activities, including both changes related to cash flows and non-monetary changes:

(In thousands of Euro)	Value as at 01.01.2017	Cash Flow	Interest rate change effect	Fair value fluctuation	Capex	Other non-monetary movements	Value as at 31.12.2017
Bond Old	148,373	(91,080)		0	0	705	57,998
Bond New	0	342,448		0	0	657	343,105
Other medium-long term loan	226,040	(112,134)		0	2,539	1,421	117,865
Financial short term asset and liabilities	36,918	(13,103)	14,205	(99)	0	2,764	40,684
Non-current financial assets and liabilities	(5,738)	(3,912)		(455)	0	(405)	(10,510)
TOTAL LIABILITIES FROM FINANCING ACTIVITY	**405,593**	**122,218**	**14,205**	**(554)**	**2,539**	**5,042**	**549,142**

6.4.19. FINANCIAL LIABILITIES

The item includes the non-current portion of liabilities deriving from the fair value measurement of the hedging financial instruments recorded after the stipulation of some Interest Rate Swap contracts to hedge the interest rate risk on the Parent Company's loans for Euro 346 thousand..

6.4.20. PROVISIONS FOR RISKS AND CHARGES

The table below provides a breakdown of this item and its changes as at 31 December 2017:

(In thousands of Euro)	Balance as at 31.12.2016	Provisions	Utilisation	Balance as at 31.12.2017
Contractual risks for services	652	307	0	959
PROVISIONS FOR RISKS AND CHARGES	**652**	**307**	**0**	**959**

6.4.21. LIABILITIES FOR EMPLOYEE BENEFITS

As at 31 December 2017, Liabilities for employee benefits amount to Euro 6,738 thousand and are made up of the employee severance indemnity due to employees of Kedrion S.p.A., as provided by Art. 2120 of the Italian Civil Code for Euro 3,847 thousand and other employees' benefits for the remaining amount.

For the purposes of recording in the financial statements, the employee severance indemnity pursuant to Art. 2120 of the Italian Civil Code falls under the category of defined benefit pension plans insofar as it is considered a defined benefit obligation and, as such, has been accounted for in accordance with IAS 19 which requires the valuation of the related liabilities using actuarial techniques. The main assumptions adopted are summarised in the following tables:

Summary of the Technical Economic Bases – financial assumptions	31.12.2017	31.12.2016
Annual discount rate	1.30%	1.31%
Annual inflation rate	1.50%	1.50%
Annual rate of Employee severance indemnity increase	2.625%	2.625%

Summary of the Technical Demographic Bases	Demographic assumptions
Death	RG48 mortality tables published by Ragioneria Generale dello Stato (Italian State General Accounting Department)
Disability	INPS (Italian National Social Security Institute) tables broken down by age and gender
Retirement	100% on reaching AGO requirements

Table showing the annual turnover frequency and TFR (employee severance indemnity) advances	31.12.2017	31.12.2016
Frequency of advances	2.00%	2.00%
Frequency of turnover	2.00%	2.00%

It should be noted that - for the actuarial calculation - a discount rate determined in relation to a basket of corporate AA-rated bonds was used (iBoxx Corporate AA 10+ index), in accordance with the guidelines advised by the Association of Actuaries on 31 December 2017 and the reference accounting standard.

The table below shows the changes in the employee severance indemnity for the years as at 31 December 2017 and as at 31 December 2016:

(In thousands of Euro)	31.12.2017	31.12.2016
Present value of the obligation at the start of the period	3,986	4,000
Financial charge	54	44
Benefits paid	(184)	(252)
Actuarial loss (gain) recorded	(9)	194
PRESENT VALUE OF THE OBLIGATION AT THE END OF THE PERIOD	**3,847**	**3,986**

The other liabilities for employee benefits amount to Euro 2,891 thousand and mainly consist for Euro 843 thousand of a defined benefit plan relating to the Hungarian subsidiary HBP and Euro 1,888 thousand from the present value of the liability recorded in relation to the incentive program 2016-2018.

The average number of employees, expressed in terms of full-time equivalent staff, is reported in the following table:

Staff - FTE	31.12.2017	31.12.2016
Total FTE (emp.+ emp. leasing + temp.+ outsourcing)	2,317	2,280
- Of which employee leasing Kedrion S.p.A.	0	15
- Of which temporary workers Kedrion Biopharma	31	13
- Of which outsourcing Kedrion Mexicana e Kedrion India	8	12

6.4.22. OTHER NON-CURRENT LIABILITIES

The table below provides a breakdown of this item for the years ended 31 December 2017 and 31 December 2016:

(In thousands of Euro)	31.12.2017	31.12.2016
Grant on investments	874	1,187
Hungary grant	4,013	4,085
Tax payables	1,517	0
Other liabilities	1,430	1,434
OTHER NON-CURRENT LIABILITIES	**7,834**	**6,706**

The liabilities for the grant on investments include:

- The benefit set forth in Italian Law 488/92, the tax credit pursuant to Italian Law 388/00 received in the past as capital account payments, and the credit accrued on investments made in the first half of 2015 and represent the non-current portions of these grants pertaining to subsequent years that are entered in the statement of profit or loss on a straight-line basis throughout the useful life of the asset concerned;
- The residual amount of the capital grant due on the basis of the program agreements signed with the Italian Medicines Agency represents the portion relating to future years

which will be charged to the statement of profit or loss based on the useful life of the investments financed. The portion booked to the statement of profit or loss in the year amounts to Euro 64 thousand.

The non-current portion of the capital grant due on the basis of an agreement stipulated by the Hungarian subsidiary HUMAN BioPlazma with the government to finance the investments made in the production plant amounts to Euro 4,013 thousand, including a tax credit accrued on investments made by the Hungarian subsidiary HUMAN BioPlazma, which may be used to reduce 80% of tax due over a period of 10 years.

The item Tax payables relates to the tax settlement that closed the report on findings (PVC) issued on 3 October 2016 against Kedrion S.p.A., in which the tax officers had highlighted, relating to the year 2013:

- The appropriateness of the documentation provided regarding transfer prices;
- A higher taxable amount in the transactions for the purchase of plasma, both collected and brokered, in respect of the German subsidiary KEDPLASMA GmbH and for the plasma fractionation operations carried out by the Hungarian subsidiary HUMAN BioPlazma Kft. for approximately Euro 2.5 million in total and a corresponding higher tax for Euro 0.8 million.

The definition was extended to subsequent years (2014 and 2015) with a total cost of approximately Euro 1.9 million.

The other liabilities refer to a long-term deposit received from a customer.

6.4.23. FINANCIAL LIABILITIES

The following table shows the details of the item in question for the years ended December 31, 2017 and December 31, 2016:

(In thousands of Euro)	31.12.2017	31.12.2016
Due to banks for advances on bills and invoices	1,279	23,644
Due to other lenders	1,227	7,692
Hedging derivatives	507	609
Non-hedging derivatives	556	0
Payables to bondholders for interest	6,799	4,786
Current account overdrafts and cash equivalents payable on demand	238	79
Revolving credit facility	30,000	0
Other financial payables	642	221
FINANCIAL LIABILITIES	**41,248**	**37,031**

Financial liabilities, equal to Euro 41,248 thousand, are composed of current account liabilities and short-term debt, as specified in the table above.

Payables to other lenders are represented by payables to leasing companies.

Derivative hedging instruments regard the fair value measurement of liabilities deriving from Interest Rate Swap contracts stipulated to cover the interest rate of the Revolving Credit Facility of Euro 158 million for Euro 454 thousand and for the Revolving Credit Facility of Euro 30 million for Euro 53 thousand.

Payables to bondholders refer to the interest accrued on bonds issued at the annual rate of 4.625% and those accrued on the new bond issued at the annual rate of 3% for a total of Euro 6,799 thousand.

The item overdraft and payable liquid assets on demand shows the accrued interest as at 31 December and the negative balance of some currency accounts.
The Revolving Credit Facility is a credit line granted by Cassa di Risparmio di Pistoia and Lucchesia for a total of Euro 30 million, which as at 31 December was entirely used.

The use of credit lines granted by the banks to the Parent Company as at 31 December 2017 is equal to 8.3% of the total credit line against 30.72% as of 31 December 2016.

6.4.24. CURRENT PORTION OF MEDIUM/LONG-TERM DEBT

The table below provides a breakdown of the current portion of medium/long term debt as at 31 December 2017 and as at 31 December 2016:

(In thousands of Euro)	31.12.2017	31.12.2016
Medium/long-term debt	471	11,861
Payables to leasing companies	6,565	6,995
CURRENT PORTION OF MEDIUM/LONG-TERM DEBT	**7,036**	**18,856**

The current residual portion of medium/long-term debt refers to the quota payable within twelve months on the loan disbursed by Banca Popolare dell'Emilia Romagna for Euro 282 thousand. For further details, see note 6.4.18.

6.4.25. CURRENT PROVISIONS FOR RISKS AND CHARGES

(In thousands of Euro)	Balance as at 31.12.2016	Reclassifications /Provisions	Utilisation	Balance as at 31.12.2017
Legal disputes	3,487	0	2,889	598
CURRENT PROVISIONS FOR RISKS AND CHARGES	**3,487**	**0**	**2,889**	**598**

The utilization is related to the overrun of hospital expenditure charged to pharmaceutical companies for the years from 2013 to 2016, to the definition of the dispute with a private individual and to the tax settlement that closed the report on findings (“PVC”) issued on 3 October 2016 as already explained in note 6.4.22.
The residual as at 31 December 2017 is related to the remaining risk related to the overrun of the hospital expenditure limit.

6.4.26. TRADE PAYABLES

The table below provides a breakdown of trade payables as at 31 December 2017 and as at 31 December 2016:

(In thousands of Euro)	31.12.2017	31.12.2016
Italian suppliers	33,178	33,696
Foreign suppliers	77,743	106,676
Invoices to be received	12,322	23,623
Advances to suppliers	(368)	(52)
Credit notes to be received	(353)	(1,357)
TRADE PAYABLES	**122,522**	**162,586**

Trade payables are non-interest bearing and are, in general, settled within 60-90 days. The value includes payables relating to normal business activities of the group companies, particularly the purchase of raw materials, components and outsourced processing and services

The decrease in the item is mainly due to lower purchases of raw materials and the completion of the investments in progress for the refitting of Melville plant and for the new production workshop in Castelvecchio Pascoli.

6.4.27. CURRENT TAX PAYABLES

The balance of Euro 2,787 thousand as at 31 December 2017 represents the payable for current income taxes of foreign companies, in particular of Kedrion Biopharma Inc. and Kedrion International, which breaks down as follows:

(In thousands of Euro)	31.12.2017	31.12.2016
IRES	0	0
IRAP	0	0
Other current taxes relating to foreign companies	2,787	2,027
CURRENT TAX PAYABLES	**2,787**	**2,027**

6.4.28. OTHER CURRENT LIABILITIES

The details of other current liabilities at 31 December 2017 and 31 December 2016 are shown below:

(In thousands of Euro)	31.12.2017	31.12.2016
Social security payables	6,993	6,172
Payables to employees and collaborators	15,089	11,929
Payables for toll-manufacturing	2,224	1,926
Payables to Shareholders for dividends	2,193	5,449
Other payables	4,741	17,464
Accrued expenses	1,164	766
Grant on investments	313	328
Hungary grant - current portion	118	185
VAT	5,415	10,852
Deferred VAT	0	0
Withholding tax	3,022	2,651
OTHER CURRENT LIABILITIES	**41,272**	**57,722**

Social security payables primarily refer to contributions on salaries for December and the fourteenth month salary, allocations for leave not taken, company bonuses and accrued retirement incentives.

Payables to employees include salaries for December, accrued employee severance indemnity for employees who had ceased employment as at 31 December, including any retirement incentive, fourteenth month salary and leave accrued and not taken.

Payables on toll-manufacturing refer to a discount recognised on the litres of plasma processed for certain Italian Regional Authorities as well as a discount applied in the case of advance payment.

The item Other payables mostly regards the following accounts:

- The payable to the shareholder Sestant S.p.A. for the taxes transferred as a result of the tax consolidation for Euro 1,334 thousand;
- The liability related to a tax imposed by the Romanian authorities on sales in this market for Euro 1,030 thousand;
- The current portion of the debt relating to the definition of the report on findings (PVC) issued on October 3, 2016 for Euro 428 thousand.

As at 31 December 2016 the item included Euro 14,230 thousand referring to the advance payment made by Biomat for the purchase of the 6 plasma centers which took place in February 2017.

Payables for the capital grant contribution and tax credit of Law 488/92 and Law 388/00 and the subsidy on investments made in the first half of 2015 relate to the shares of the same contributions for the next twelve months that they are recorded in the income statement on a straight line basis over the expected useful life of the assets to which they refer.

The amount due to the Tax Authorities for tax purposes mainly refers to the withholding taxes related to the wages of the months of November and December and to the thirteenth month salary.

6.5. COMMENT ON THE MAIN ITEMS OF THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS

6.5.1. REVENUES FROM SALES AND SERVICES

In the years ended 31 December 2017 and 31 December 2016 revenues from sales and services totaled Euro 602,501 thousand and Euro 659,349 thousand respectively. They break down as follows:

	Period ended at 31 December	
(In thousands of Euro)	2017	2016
Plasma derivatives	490,016	503,542
Plasma	93,905	141,473
Other activities	18,580	14,334
REVENUES FROM SALES AND SERVICES	**602,501**	**659,349**

The Group operates in three business segments:

- *Production and sale of plasma derivatives*, i.e. proteins extracted from human plasma such as albumin, standard and specific immunoglobulins, and coagulating factors;
- *Collection and sale of plasma.* Plasma is mostly collected through centers owned by the Group;
- *Other activities* including sale of other pharmaceutical specialties.

An analysis is provided below of revenues from sales and services by business segment for the year ended 31 December 2017:

"PRODUCTION AND SALE OF PLASMA DERIVATIVES" SEGMENT

Revenues for the production and sale of plasma derivatives as at 31 December 2017 amounted to Euro 490,016 thousand (81.3% of total revenues) with a decrease of around 3% due to the limited availability of products for the US market for the long shutdown of Melville plant and the interruption of sales of the Bivigam specialty. In fact, the plasma derivatives US market is about 9% lower than the previous year, while all the other strategic markets are growing, driven by Russia and Germany; within this segment, the US market retains slightly leadership compared to the Italian market.
Furthermore, in the financial year 2017, the weight of this segment increased, rising to around 81%, penalizing the plasma segment following the reduction in plasma availability.

"COLLECTION AND SALE OF PLASMA" SEGMENT

Revenues in the plasma collection and commercialization segment at 31 December 2017 amounted to Euro 93,905 thousand, a decrease of 34% compared to the previous year mainly due to lower volumes supplied by third parties and partially offset by an increasing collection at both American and European owned centers (managed by the Plasma Business Unit to which KEDPLASMA LLC, KEDPLASMA GmbH and the plasma division in the Hungarian company HUMAN BioPlazma Kft. belong to), the number of which, despite the sale of six centers during

the year 2017, remained unchanged thanks to the purchase/start-up of five owned centers in the United States and a center in Hungary.

"OTHER ACTIVITIES" SEGMENT

Revenues for this segment at 31 December 2017 amounted to Euro 18,580 thousand and relate to the sale of synthetic products and production on behalf of third parties.
One of the synthetic products is the Nuwiq, the recombinant factor VIII obtained in exclusive distribution for Italy by Octapharma with a ten-year agreement. The turnover of this product during this year (Euro 9.2 million) increased by +143% compared to 2016.
In 2017, the Group acquired the exclusive distribution in Italy on behalf of CERUS of biomedical products used for viral inactivation of platelets and human plasma: the activity was launched both for the commercial synergy with the current Kedrion positioning in the plasma-derivatives industry both for the possible development of the red cell inactivation segment for transfusion use, for which CERUS plans to obtain authorization in the coming years. In 2017 the start of the sale of CERUS products, related to the fourth quarter alone, generated revenues of Euro 0.2 million.
The production on behalf of third parties carried out at the Melville and Godollo plants for some operators in the industry, is Euro 8.5 million compared to Euro 9.8 million in 2016: this segment too has been slowed down by the refitting activity of Melville plant, while the European production, carried out at the Godollo plant, is substantially stable compared to the previous year.

Further information on the distribution of revenues by business segment and by geographical area see the report on operations.

6.5.2. COST OF SALES

The item breaks down as follows:

	Period ended at 31 December	
(In thousands of Euro)	**2017**	**2016**
Consumption of raw materials, accessories and consumables	241,782	311,121
Outsourced processing	30,967	10,470
Service costs	68,151	65,099
Labour costs and related charges	71,904	70,527
Amortisation and depreciation	15,027	12,710
COST OF SALES	**427,831**	**469,927**

Il In 2017, cost of sales totals Euro 427,831 thousand, with a 71% percentage incidence on revenues, compared to 71.3% in 2016. This reduction is mainly due to two opposing dynamics: on one hand, the positive effect due to the lower availability of plasma supplied by third parties in favor of plasma collected at own centers, therefore at lower costs; on the other hand, to the negative effects deriving from the prolonged stop of the Melville plant. In particular, the shutdown of the Melville plant, limited sales on the US market (i.e. the one with the highest margin), and also led to an increase in costs for the period, both due to the significant non-absorbed plant costs, both due to the need to carry out at least part of the production in outsourcing, further reducing margins.
The item consumption of raw materials, accessories and consumables includes the cost of plasma and all the materials used during the production process.

The costs for external processing are attributable to the fractionation and packaging activities carried out at external plants and mainly refer to Melville plant.
The costs for services are related to plant maintenance and other third-party services related to production sites.
Non-recurring transactions relating to cost of sales amounted to Euro 39.7 million and mainly concerned the costs related to the refitting of Melville plant. For more details, please refer to note 6.5.11.

6.5.3. OTHER INCOME

The item is composed as follow:

	Period ended at 31 December	
(In thousands of Euro)	2017	2016
Recovery of expenses	3,039	624
Capital gain on the sale of plasma collection centers	29,601	0
Early termination penalty Biotest distribution agreement	15,491	0
Insurance refunds	59	2,702
Operating grants	250	219
Plant and machinery grants	374	389
Utilisation of provisions	384	211
Services	269	246
Others	3,420	1,436
OTHER INCOME	**52,887**	**5,827**

Other revenues show a significant increase, mainly as a result of the income generated by the sale of six US plasma collection centers equal to approximately Euro 30 million (better described below) and the penalty paid following a settlement for the interruption of the distribution of a medicinal product for around Euro 15 million.

The items insurance costs recoveries and insurance reimbursements refer to reimbursements and recovery of expenses obtained from suppliers and customers and to reimbursements of claims involving finished and intermediate products.
Grants related to the year refer to the quota for the year relating to research projects partly financed by the Ministry of University and Research and the Region of Tuscany.

Plant grants refer to the amount pertaining to the year of grants paid pursuant to Law 488/92, Law 388/00 and the contribution paid by AIFA in the Program Agreements and the investment contribution of 2015 according to the Legislative Decree 91/2014.

The item "other" mainly refers to research services carried out on behalf of a third-party US company for Euro 2,106 thousand and for the residual out-of-period income relating to insurance reimbursements relating to claims that occurred in previous years. In particular, the sale of the centers was completed in February 2017, and involved a consideration of USD 47.1 million (equal to Euro 42.5 million) against a carrying amount of the assets sold for Euro 12.9 million (last year mainly presented as assets held for sale), thus generating the aforementioned capital gain of

Euro 29.6 million. From a financial point of view, the sale price was collected in 2016 for the first USD 15 million paid as an advance (equal to Euro 14.2 million) and paid in 2017 for the residual USD 32.1 million (Euro 28.3 million).
According to the Directors, the operation should be seen in the ordinary optimization of the Group's procurement management, within which the excess capacity of collection and/or purchase of plasma are managed through the sale of plasma to third parties or, directly through the sale of the centers that are less responsive to the Group's strategic objectives. Consistent with this assessment, the transaction, although it has had a significant effect on the result of the year, is not considered non-recurring and in the cash flow statement the flows that originated were classified among those generated by operating activities.

Non-recurring transactions relating to other revenues amounted to Euro 14.8 million and are related to the active penalty collected for the termination of the distribution contract for the Bivigam medicinal product. For more details, please refer to note 6.5.11.

6.5.4. GENERAL AND ADMINISTRATIVE EXPENSES

The item breaks down as follows:

	Period ended at 31 December	
(In thousands of Euro)	**2017**	**2016**
Labour cost and related charges	30,941	27,775
Taxes and duties (excluding income tax)	1,968	2,806
Legal and administrative services	12,581	11,691
Directors' and Auditors' fees and expenses	1,571	1,841
Amortisation and depreciation	7,319	7,665
General and administrative insurance	2,901	3,449
Data processing expenses	2,206	2,197
Telephone and postal charges	2,038	1,733
Rentals and operating leases	3,832	3,665
Outsourcing	3,998	3,884
Provisions	762	4,549
Other services and general and administrative costs	10,640	11,830
GENERAL AND ADMINISTRATIVE EXPENSES	**80,757**	**83,085**

The increase in labour costs is due to the raise of workforce.
The provisions for the year relate to the overrun of the hospital expense limit for pharmaceutical companies for 2017 of Euro 250 thousand and the provision of the Hungarian subsidiary HUMAN BioPlazma for a toll manufacturing contract.
The item other services and general costs includes cleaning costs, car rental costs and membership fees for sector organizations.

Non-recurring transactions relating to general and administrative expenses amount to Euro 3,388 thousand. For more details, please refer to note 6.5.11.

6.5.5. SALES AND MARKETING EXPENSES

The item breaks down as follows:

	Period ended at 31 December	
(In thousands of Euro)	2017	2016
Labour cost and related charges	16,596	16,359
Consultancy	4,939	4,491
Commissions	7,014	13,018
Convention and conference costs	1,372	2,196
Advertising costs	2,967	2,652
Amortisation and depreciation	118	14
Other	18,779	12,106
SALES AND MARKETING EXPENSES	**51,785**	**50,836**

Fees decreased in 2017 mainly in accordance to the sales' stop of the Bivigam specialty.
The item "other" mainly includes company cars' rental costs supplied to the sales network and the annual fees for subscription in the sector associations. The increase is mainly due to costs for market research incurred to evaluate possible scenarios for revenue growth.

Non-recurring transactions relating to commercial and marketing expenses amounted to Euro 1,299 thousand. For more details, please refer to note 6.5.11.

6.5.6. RESEARCH AND DEVELOPMENT COSTS

The item breaks down as follows:

	Period ended at 31 December	
(In thousands of Euro)	2017	2016
Labour cost and related charges	15,256	12,618
Consultancy	2,958	3,957
Clinical trials	1,639	1,357
Amortisation and depreciation	3,231	3,311
Other	11,961	11,846
RESEARCH AND DEVELOPMENT COSTS	**35,045**	**33,089**

The item other includes costs for the purchase of materials for clinical trials and services from third parties. Further information on the research projects under way can be found in the Report on Operations. The increase in labor cost, partly mitigated by saving on consultancy expenses, is due to the internalization of skills.

Non-recurring transactions relating to research and development expenses amount to Euro 5,842 thousand. For more details, please refer to note 6.5.11.

6.5.7. OTHER OPERATING COSTS

The item breaks down as follows:

	Period ended at 31 December	
(In thousands Euro)	2017	2016
Labour cost and related charges	3,635	3,552
Consultancy	1,231	1,338
Amortisation and depreciation	200	223
Product registration fees	2,219	2,316
Other	1,040	1,018
OTHER OPERATING COSTS	**8,325**	**8,447**

Other operating costs mainly regard expenses incurred by the Group for the retention of product registrations in Italy and abroad. The cost remains substantially unchanged compared to the previous year.
Non-recurring operations relating to operating costs amount to Euro 30 thousand and mainly concern extraordinary incentives to employees.

BREAKDOWN BY NATURE AND BY FUNCTION OF EXPENSE

	Period ended at 31 December	
(in thousands of Euro)	2017	2016
Purchases	256,908	317,967
Change in inventories	(13,399)	(1,398)
Services	148,270	131,066
Amortisation and depreciation	25,895	23,923
Labour cost	138,332	130,831
Use of third party assets	12,061	10,484
Provisions for risks	761	4,674
Other costs	34,915	27,837
TOTAL COSTS BY NATURE	**603,743**	**645,384**

	Period ended at 31 December	
(In thousands of Euro)	2017	2016
Cost of sales	427,831	469,927
General and administrative expenses	80,757	83,085
Sales and marketing expenses	51,785	50,836
Research and development costs	35,045	33,089
Other operating costs	8,325	8,447
TOTAL COSTS BY FUNCTION	**603,743**	**645,384**

6.5.8. FINANCIAL EXPENSES

The table below provides a breakdown of financial expenses as at 31 December 2017 and as at 31 December 2016:

	Period ended at 31 December	
(In thousands of Euro)	2017	2016
Bank interest expense	4,788	4,244
Interest due to bondholders	9,829	6,942
Financial expenses on non-recourse factoring	0	139
Other interest expense	520	78
Net actuarial interest	2,370	649
Financial expenses on derivatives	552	26
Financial expenses on leasing contracts	645	898
Other	6,625	1,955
Realised exchange losses	18,421	5,629
FINANCIAL EXPENSES	**43,750**	**20,560**

Financial expenses were mainly generated by medium- and long-term debt, including the bonds granted to the Group; this is described in more detail in Note 3.18. The increase is mainly due to the financial charges relating to new bond issue and those for the partial repurchase of the bond issued in 2014 which amount to a total of Euro 4.9 million. In addition, the fluctuation of the EUR/USD exchange rate generated exchange losses both realized and not equal to Euro 18.4 million with an increase compared to 2016 of about Euro 12.7 million.

Non-recurring transactions relating to financial charges amounted to Euro 4,931 thousand and mainly refer to costs incurred in connection with the partial repurchase of the bond issued in 2014. For more details, please refer to note 6.5.11.

6.5.9. FINANCIAL INCOME

The item breaks down as follows:

	Period ended at 31 December	
(In thousands of Euro)	2017	2016
Interest income	529	367
Financial income on derivatives	0	0
Realised exchange gains	1,424	10,929
FINANCIAL INCOME	**1,953**	**11,296**

The decrease in financial income is mainly due to the impact of currency fluctuations.

6.5.10. INCOME TAXES

Income taxes at 31 December 2017 amount to Euro 3,657 thousand and are broken down as follows:

(In thousands of Euro)	Period ended at 31 December 2017	2016
Current taxes	8,303	4,646
Deferred taxes	2,384	(3,303)
Income/(charges) from fiscal consolidation	(3,899)	0
Tax credits	(4,379)	(2,573)
Charges for tax disputes	1,187	0
Taxes of previous years	61	0
INCOME TAXES	**3,657**	**(1,230)**

Non-recurring transactions relating to financial charges amounted to Euro 1,187 thousand. For more details, please refer to note 6.5.11.

The result before income taxes, the provision for income taxes for the years ended December 31, 2017 and 2016 and the reconciliation between the theoretical and actual tax rates resulting from the consolidated financial statements are shown in the following table:

(In thousands of Euro)	Period ended at 31 December 2017	2016
Income before taxes	9,848	10,528
IRES tax rate for the year	24.00%	27.50%
Theoretical tax burden	**2,364**	**2,895**
IRAP	1,141	899
Non-deductible costs	762	734
Off-balance sheet tax deductions	(513)	(2,379)
Italian Tax Agency Assessment	570	0
Tax benefit of reimbursement of IRES in relation to IRAP	0	36
Tax credit on non-deductible foreign dividends	311	145
Tax credit on investments and research	(4,474)	(2,638)
Effect of different theoretical tax rates for foreign subsidiaries	3,496	(922)
Total differences	**1,293**	**(4,125)**
TOTAL INCOME TAX CHARGED TO THE STATEMENT OF PROFIT OR LOSS	**3,657**	**(1,230)**
Effective Tax rate	**37.13%**	**(11.68%)**

6.5.11. SIGNIFICANT NON-RECURRING, UNUSUAL AND ATYPICAL TRANSACTIONS

During 2017, non-recurring items, as determined by the Italian Authority “Consob” in its resolution No. 15519 dated 27 July 2006, which defines non-recurring items as "income components (positive and/or negative) deriving from events or transactions whose occurrence is non-recurring

or from those operations or events that are not frequently repeated in the usual course of business" amounted to Euro 41.6 million and are set forth in the table below:

Significant non-recurring transactions at 31.12.2017

(In thousands of Euro)	Cost of Sales	Other Income	General and administrative expenses	Sales and marketing expenses	Research and development cost	Other operating cost	Financial expenses	Income tax	TOTAL	Of which with effect on EBITDA
Melville plant's refitting	39,638		371		5,797				**45,806**	**43,002**
Bivigam penalty		(14,780)		862					**(13,918)**	**(13,918)**
Extraordinary incentives related to ongoing projects	45		1,252	437	45	30			**1,809**	**1,809**
Non recurrent donations			1,181						**1,181**	**1,181**
Tender offer on bond			87				4,931		**5,018**	**87**
Tax litigation			497					1,187	**1,684**	**497**
TOTAL	**39,683**	**(14,780)**	**3,388**	**1,299**	**5,842**	**30**	**4,931**	**1,187**	**41,580**	**32,568**

We summarize below the nature of the cost and revenue items considered as non-recurring:

- **Melville plant's refitting**, consisting of costs not absorbed either by the fractionation and by the new production line dedicated to RhoGAM (that during the shutdown did not lead to corresponding production and revenues) for Euro 29.6 million, non-capitalized operating costs of the project for Euro 1.5 million, the write-down of inventories of intermediates produced before the plant's shutdown for Euro 11.9 million and the higher depreciation of the assets substituted within the project for Euro 2.8 million, for a total of Euro 45.8 million;
- **Bivigam penalty**, referring to the impact on the statement of profit or loss due to the termination of the distribution contract for the Bivigam specialty between the subsidiary Kedrion Biopharma Inc. and the supplier Biotest;
- **Extraordinary incentives for employees** represented by bonuses paid to certain executives in relation to the achievement of objectives related to ongoing projects;
- **Non-recurring donations** of Euro 1.2 million;
- **Tender offer on bond** represented by the financial charges incurred in relation to the partial repurchase of the bond issued in 2014 for Euro 4.9 million and some related consultancy services for Euro 87 thousand;
- **Tax litigation** represented by the charges related to the tax settlement of the report on findings (PVC) suffered by the Parent Company Kedrion S.p.A. not covered by funds allocated in the previous year.

6.6. **OTHER INFORMATION**

6.6.1. OPERATING SEGMENTS

The Group provides information on the basis of its operating segments. An operating segment is based on the Group's management structure and internal reporting system. Segment results include elements attributable directly to a sector and through the reasonable allocation for costs common to several segments. Revenues, costs and segment results include transfers between segments. These transactions are eliminated at the consolidation stage. Intercompany sale prices are established in a manner similar to transactions with third parties. The Group also provides information on geographical areas.

The Group operates in three business segments:

- *Production and sale of plasma derivatives*, i.e. proteins extracted from human plasma such as albumin, standard and specific immunoglobulins, and coagulating factors;
- *Collection and sale of plasma.* Plasma is mostly collected through centers owned by the Group;
- *Other activities* including sale of other pharmaceutical specialties.

The Group operates worldwide, segmenting its markets into four geographical macro areas: "Italy", "European Union", "U.S.A." and "Rest of the World".
Sales to foreign customers are based on the geographical location of the customers.
Inter-segment revenues of the segment "Plasma" are realized with the segment "Plasma derivatives".

Information on the operating segments as at 31 December 2017 is provided below:

Period ended at 31.12.2017					
(In thousands of Euro)	Plasma derivatives	Plasma	Other activities	Eliminations	Consolidated
Revenues from third parties	490,016	93,906	18,580	0	602,501
Inter-segment revenues	0	130,604	0	(130,604)	0
TOTAL REVENUES	**490,016**	**224,510**	**18,580**	**(130,604)**	**602,501**
COST OF SALES	**342,773**	**200,055**	**12,337**	**(130,604)**	**424,561**
GROSS MARGIN	**147,243**	**24,455**	**6,243**	**0**	**177,940**
% OF REVENUES	**30,0%**	**10,9%**	**33,6%**	**-**	**29,5%**
Other income	19,442	30,175			49,617
Operating costs					175,912
OPERATING INCOME					**51,645**
Net financial expenses					41,797
INCOME BEFORE TAXES					**9,848**
Income taxes					3,657
GROUP INCOME					**6,191**

Assets and liabilities as at 31 December 2017					
(In thousands of Euro)	Plasma derivatives	Plasma	Other activities	Unallocated	Consolidated
Operating assets	821,621	84,927	4,920	200,812	1,112,280
Liabilities from operations allocated to segments	79,761	35,604	7,157	620,750	743,272
Other segment reporting as at 31 December 2016:					
Investments in intangible assets	626	17,893			18,519
Investments in property, plant and equipment allocated to segments	62,825	1,415			64,240
Amortisation/depreciation of intangible and tangible assets allocated to segments	14,139	888			15,027

The table below summarises revenues by geographical area:

(In thousands of Euro)	31.12.2017	31.12.2016
Italy	163,589	167,456
European Union	58,398	59,556
USA	244,389	297,426
Rest of the World	136,125	134,910
TOTAL REVENUES FROM SALES AND SERVICES	**602,501**	**659,349**

6.6.2. RELATED PARTY TRANSACTIONS

The following tables provide details of economic and financial transactions with related parties. The companies indicated were identified as related parties given their direct or indirect relationship to the shareholders of reference.

	Period Ended at 31.12.2017						
(In thousands of Euro)	Revenues	Cost of Sales	G&A	S&A	R&D	Other operating costs	Financial (expense) / income
Il Ciocco S.p.A.	0	77	399	31	63	1	0
Shaner Ciocco S.r.l.	1	10	65	54	8	10	0
Ancora S.r.l.	0	0	70	0	0	58	0
Fondazione Campus	0	0	437	40	78	0	0
Il Ciocco International Travel Service S.r.l.	1	0	1.025	33	0	0	0
Fondo Strategico Italiano S.p.A.	0	0	22	0	0	0	0
Maggio Re S.r.l.	0	0	718	87	118	0	0
Tecno Costruzioni S.r.l.	0	280	9	0	0	0	0
Tecno Immobiliare S.r.l.	0	45	16	0	0	105	0
Validations and Technical Serv. S.r.l.	0	592	54	0	15	0	0
Sestant S.p.A.	0	0	0	0	0	0	0
G.P.S. S.r.l.	0	1,995	833	0	27	27	0
Ai Piani S.r.l.	0	0	18	0	0	0	0
Paola Pardini	0	0	62	0	0	0	0
Wormser, Kiely, G & J LLP	0	0	24	0	0	0	0
Entegrion Inc.	446	0	0	0	0	0	0
TOTAL	**448**	**3,000**	**3,752**	**245**	**309**	**200**	**0**
Group Total	**602,501**	**427,831**	**80,757**	**51,785**	**35,045**	**8,325**	**(41,797)**
% incidence	**0.1%**	**0.70%**	**4.6%**	**0.5%**	**0.9%**	**2.4%**	**0.0%**

(In thousands of Euro)	31.12.2017				
	Financial receivables	Receivables	Borrowings	Payables	CAPEX
Il Ciocco S.p.A.	120	0	0	125	0
Shaner Ciocco S.r.l.	0	1	0	40	0
Ancora S.r.l.	0	0	0	0	0
Fondazione Campus	0	0	0	161	0
Il Ciocco International Travel Service S.r.l.	0	4	0	223	0
Fondo Strategico Italiano S.p.A.	0	0	0	3	0
Maggio Re S.r.l.	58	0	0	0	93
Tecno Costruzioni S.r.l.	1	0	0	315	131
Tecno Immobiliare S.r.l.	41	0	0	0	0
Validations and Technical Serv. S.r.l.	0	0	0	387	220
Sestant S.p.A.	0	5,449	0	1,334	0
G.P.S. S.r.l.	0	0	0	390	0
Ai Piani S.r.l.	3	0	0	1	0
Paola Pardini	10	0	0	0	0
Wormser, Kiely, G & J LLP	0	0	0	10	0
Entegrion Inc.	0	125	0	0	0
TOTAL	**233**	**5.579**	**0**	**2.989**	**443**
Group Total	**11,420**	**127,969**	**560,562**	**122,522**	**251,215**
% incidence	**2.0%**	**4.4%**	**0.0%**	**2.4%**	**0.2%**

In particular, at the end of 2017 the following details are provided for each related party:

- Il Ciocco: costs mainly relate to property rentals of Euro 270 thousand, supplies of electricity of Euro 84 thousand and methane gas of Euro 49 thousand. The payables are trade payables and relate to the above-mentioned services;
- Shaner Ciocco: costs mainly relate to hotel and entertainment expenses for Euro 147 thousand. The payables are trade payables and relate to the above-mentioned services;
- Ancora: the costs relate to lease instalments on an office property in Rome for Euro 155 thousand;
- Fondazione Campus Studi del Mediterraneo: costs refer to training courses for directors and middle management of Kedrion S.p.A. and language courses for Euro 554 thousand. The payables are trade payables and relate to the above-mentioned services;
- Ciocco Travel: the costs mainly relate to helicopter services for about Euro 805 thousand, hotel reservation services and transfers for a total of Euro 230 thousand, as well as to the management of the car park for Euro 22 thousand. Liabilities have commercial nature and refer to the above services. Revenues for Euro 1 thousand are due to payroll service. Loans are of a commercial nature and refer to the above-mentioned services;
- FSI Investimenti S.p.A: the costs concern fees paid to directors;

- Maggio Re S.r.l.: the costs relate to lease instalments of Euro 915 thousand for the rental of some office properties and furniture for the new offices “Pierangeli” of Euro 92 thousand;
- Tecno Immobiliare S.r.l.: costs related to property rents for 166 thousand Euro;
- Tecno Costruzioni S.r.l.: costs related to plant construction and maintenance for 419 thousand Euro;
- VTS S.r.l.: Costs are related to costs of approvals and maintenance of plants;
- Sestant: Payables and receivables relate to the transfer of IRES debt and tax credits to Sestant following the adoption of Tax Consolidation Financial Statements;
- GPS S.r.l.: costs are mainly related to telecommunication services and consulting for Euro 80 thousand, cleaning costs for Euro 1,698 thousand, canteen service for Euro 976 thousand and fuel for Euro 102 thousand;
- Paola Pardini: costs related to property rents for Euro 61 thousand;
- Wormser, Kiely, Galef & Jacobs LLP: costs relatives to legal services;
- Entegrion: revenues relatives to services for a development project.

The annual fees paid to managers with strategic responsibilities in 2017 amounted to Euro 2,951 thousand, while those paid to the other members of the Marcucci family for professional services amounted to Euro 1,048 thousand.

6.6.3. ANNUAL FEES TO DIRECTORS, STATUTORY AUDITORS AND THE INDEPENDENT AUDITORS

DIRECTORS' FEES

Name and Surname	Position	Fees	Bonuses and other fees	Total Fees
Paolo Marcucci	Chairman and CEO	710,000	0	710,000
Rodolfo De Dominicis	Vice Chairman	214,000	2,000	216,000
Andrea Marcucci	Director	10,000	0	10,000
Marialina Marcucci	Director	10,000	0	10,000
Remo Grassi	Director	10,000	2,000	12,000
Guido Rivolta	Director	10,000	2,000	12,000
Umberto Della Sala	Director	10,000	0	10,000
TOTAL		**974,000**	**6,000**	**980,000**

BOARD OF STATUTORY AUDITORS FEES

Name and Surname	Position	FEES	TOTAL FEES
Fabrizio Redaelli	Chairman	45,000	45,000
Francesco Cirillo	Regular auditor	35,000	35,000
Marco Miccinesi	Regular auditor	35,000	35,000
TOTAL		**115,000**	**115,000**

FEES OF INDEPENDENT AUDITORS EY S.P.A

(In thousands of Euro)	2017
Statutory audit of financial statements	97
Other auditing services performed	174
Audit of subsidiaries	129
TOTAL	**402**

6.6.4. FINANCIAL RISK MANAGEMENT

EXCHANGE RATE RISK

The Group is internationally active and is therefore exposed to exchange rate risk arising from the various currencies in which the Group operates. Exposure to currency risk derive from commercial and financial transactions in currencies other than the accounting currency, mainly the US Dollar and, to a lesser extent, the Hungarian Forint.

The sensitivity analysis performed to assess the Group's exposure to currency risk was conducted by assuming reasonably possible changes in the exchange rates of the US Dollar and the Hungarian Forint against the Euro. The following tables show the impact on pre-tax income due to changes in the fair value of current assets and liabilities, keeping all the other variables fixed. In addition to current assets and liabilities of a commercial nature, for the financial year 2017 financial items have been included, mainly represented by the balances of intragroup financial receivables and payables in currencies other than the accounting, restating the 2016 data on the same basis.

Year ended	Change in US Dollar	Effect on income before taxes (In thousands of Euro)
31 December 2016	10% appreciation	3,923
	10% depreciation	(3,201)
31 December 2017	10% appreciation	15,311
	10% depreciation	(12,309)

Year ended	Change in Hungarian Forint	Effect on income before taxes (In thousands of Euro)
31 December 2016	10% appreciation	5,192
	10% depreciation	(4,256)
31 December 2017	10% appreciation	4,984
	10% depreciation	(4,070)

There were no direct effects on shareholders' equity in that the Group had no exchange rate hedges in place at the end of the year.

INTEREST RATE RISK

Changes in interest rates will negatively affect the value of assets and liabilities. Changes in interest rates do not typically have significant effects on the fair market value of borrowings, but they could have significant effects on the operating result, business activities, financial conditions or the Group's outlooks.
Floating-rate debts expose the Group to a risk arising from the volatility of interest rates. With regard to this risk, for the purposes of the relative hedging, Kedrion has used interest rate swaps (IRS), which transform the floating rate into a fixed rate.
Kedrion has two fixed rate bonds of Euro 58 and Euro 350 million and two revolving credit facilities of Euro 158 and Euro 30 million at floating rates, both fully hedged with interest rate swaps, until 2019 the first and until 2022 the second, which constitute the majority of medium-long term financial debts. The interest rate risk to which the Group is exposed is therefore today limited mainly to short-term loans.

The table below shows the situation with regard to the type of hedging transaction carried out and the outcome of the same as at 31 December 2017:

Tipe	Debtor rate (fixed)	Creditor rate (variable)	Start date	Maturity date	Notional (Euro)	Fair value 31.12.2017 (Euro)
Fixed for Floating Interest Rate Swaps	0.05%	Euribor 1 month	04.04.2016	24.04.2019	158,303,789	(597,896)
Fixed for Floating Interest Rate Swap	0.39%	Euribor 6 months	17.01.2018	01.04.2022	30,000,000	(232,430)
Fixed for Floating Interest Rate Swap	0.30%	Euribor 1 months	24.04.2019	22.04.2022	15,000,000	(22,144)

Derivative instruments have been designated as cash flow hedge instruments and have direct impacts on equity.

The analysis of the table below is conducted with reference to reasonable potential changes in the key variables (Euribor), keeping all other variables unchanged, and shows the impact on income before taxes and on equity due to changes in the fair value of the financial instrument (IRS) outstanding at the end of the financial year as at 31 December 2017:

(In thousands of Euro)	Effect on the result before taxes	Effect on equity
+ 100 basis points	0	3,088
- 50 basis points	0	(1,800)

LIQUIDITY RISK

The Parent Company closely manages liquidity risk by means of strict control of the elements comprising net working capital and maintains an adequate level of cash and funds obtainable by various banking institutions. At 31 December 2017, the Group had available and unused credit lines for Euro 190.5 million, of which more than one third was short-term.
In order to make cash flow management more efficient, avoiding the dispersion of cash liquidity and minimizing financial charges, the Group also adopted concentration and centralized management systems of main Group companies' cash liquidity on Kedrion S.p.A.'s accounts (cash pooling).

(In thousands of Euro)	On demand	Less than 3 months	From 3 to 12 months	From 1 to 5 years	> 5 years	Total
Financing and loans	32,138	1,838	14,308	512,279	0	560,563
Trade payables and other payables	41,689	41,073	81,033	0	0	163,795
TOTAL	**73,827**	**42,911**	**95,341**	**512,279**	**0**	**724,358**

For more details on the maturity analysis of the medium-long term debt, refer to note 6.4.18.

CREDIT RISK

Most of the Group's receivables from Europe are due from hospital authorities and other public institutions, whose credit rating is considered to be reasonably sound; the Group has never, in fact, recorded losses on receivables, with the exception of the waiving of default interest. Similarly, receivables due from US customers, given the extremely short payment times and the financial strength of these customers, are considered reasonably certain and solvent. By contrast, receivables from some foreign customers (Middle East, South America and North Africa) are covered by letters of credit or other forms of security. The Group therefore believes that it does not need to implement specific credit risk management policies given the low risk of insolvency of its customers.

CAPITAL MANAGEMENT POLICY

The primary objective of the Group's capital management is to guarantee that capital indicators are maintained at sufficient levels in order to support business activities. The Group manages and modifies the capital structure according to changes in economic conditions. To maintain or adjust the capital structure, the Group can adjust dividends paid to shareholders, repay the capital or issue new shares.
The Group controls its capital by means of a debt/capital ratio, namely the ratio between net debt and total capital plus the net financial position. For more information on financial debt and the debt/equity ratio, refer to the Report on Operations.

FINANCIAL ASSETS AND LIABILITIES

All the Group's financial instruments are entered in the financial statements at carrying amount, with the latter being equal to fair value.

6.6.5. COMMITMENTS AND RISKS

This item includes sureties, guarantees and third party assets held by the Group. For the years ended 31 December 2017 and 2016, the item is summarised as follows:

	Period Ended at 31 December	
(In thousands of Euro)	2017	2016
Risks	40,286	23,127
- Sureties	35,226	19,419
- Guarantees	5,463	19,519
Third party assets held by the Group	40,286	23,127
TOTAL	**75,376**	**81,949**

RISKS

As at 31 December 2016, risks comprised sureties provided for taking part in public tenders for a total of Euro 17,881 thousand and other insurance guarantees issued in favor of public authorities for Euro 17,345 thousand. Endorsement guarantees have been issued for leasing contracts for Euro 973 thousand.

THIRD PARTY ASSETS HELD BY THE GROUP

These refer entirely to third party assets held by the Group mainly for the Italian plasma processing activities performed by Kedrion on behalf of the Regional Authorities.

COMMITMENTS

Commitments from operating leases

The Group has entered into commercial lease contracts for several vehicles and machines. These leases have an average life of three to five years, with no renewal clauses. The stipulation of these contracts has not resulted in restrictions for the Group.

Future lease rentals in relation to operating lease contracts which cannot be annulled - and in place as at 31 December - are as follows:

	Period Ended at 31 December	
(In thousands of Euro)	2017	2016
Within 12 months	345	331
Over one year but within 5 years	0	0
Over 5 years	0	0
TOTAL	**345**	**331**

Financial leases and commitments to purchase

The Group has entered into finance leases and commitments to purchase on various plants and machinery. These leases include renewal clauses but not options to purchase or clauses setting out revaluation of the rental. Renewal may occur based on the intention of the lessee company. The table below breaks down the amounts of future rentals from finance leases and rental contracts, and the present value of the rentals:

	2017		2016	
(In thousands of Euro)	Minimum payments	Present value of payments	Minimum payments	Present value of payments
Within 12 months	6,565	6,564	6,995	6,994
Over one year but within 5 years	10,750	10,741	14,911	14,898
Over 5 years	0	0	0	0
Total minimum payments (net of interest)	**17,315**		**21,906**	
Present value of lease rentals		**17,305**		**21,892**

6.6.6. DIVIDEND POLICY

Pursuant to Article 30.3 of the Bylaws of Kedrion S.p.A., the net profits resulting from the financial statements duly approved by the Shareholders' Meeting will be broken down as follows: a) at

least 5% to the legal reserve fund until it has reached the fifth of the share capital; b) not less than 30% as a distribution of dividends after the Shareholders' Meeting resolution and subject to verification by the Board of Directors in compliance with any contractual restrictions.

6.6.7. SUBSEQUENT EVENTS

KEDPLASMA LLC acquired two new centers (Sarasota and Myrtle Beach) from the company Immunotek Biocenters LLC, whose transfer was completed in the first days of January 2018. With this acquisition, the total number of plasma collection centers owned by the Kedrion Group is equal to 26 centers.

On 17 January 2018, a provision of the Italian Competition Authority (AGCM) was notified to Kedrion S.p.A.. This stated the beginning of an investigation procedure for possible anti-competitive conduct carried out by Kedrion S.p.A. and Grifols Italia S.p.A. in their participation in an associated form (through Temporary Joint Venture) to the tender issued by Intercenter, the Emilia Romagna Region's purchasing center, for the assignment of plasma processing service in some regions. The tender was awarded in September 2017 to the TJV Kedrion-Grifols. The proceeding was initiated pursuant to Art. 2 of the Law n. 287/1990 and to the Art. 101 TFEU following a complaint filed by other companies taking part in the tender (Baxter-Shire and CSL Behring), and must be completed by 31 December 2018.
On 19 February 2018, Kedrion S.p.A. signed an agreement ("Accordo di innovazione") at the Ministry of Economic Development, in the presence of Minister Carlo Calenda and the President of the Tuscany Region Enrico Rossi, for an investment program in Industrial Research and Experimental Development of Euro 37.5 million (of which Euro 9 million financed by the Ministry of Economic Development and Euro 1.5 million by the Tuscany Region). The investment program aims to produce a new 10% intravenous immunoglobulin (KIg10), to be carried out at the production facilities in Bolognana and Castelvecchio Pascoli (LU).

None of these events has impacts on the 2017 financial statements.

Castelvecchio Pascoli, 29 March 2018

On behalf of the Board of Directors
The Chairman
Paolo Marcucci

KEDRION
BIOPHARMA